Aalto University
School of Business

PRIVATE EQUITY PURSUING IMPACT

Challenges and Development of Impact Investing in the Finnish PE Industry

Master's Thesis
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Creative Sustainability
Spring 2020

Aalto University
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Abstract of master's thesis

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Title of thesis Private Equity Pursuing Impact – Challenges and Development of Impact Investing in the Finnish PE Industry

Degree Master of Science in Economics and Business Administration

Degree programme Creative Sustainability

Thesis advisor(s) Samuli Patala

Year of approval 2020 **Number of pages** 81 **Language** English

Abstract

Over the last years, impact investing has been growing in terms of interest and awareness as well as actual money flows. Impact investors are pursuing environmental and/or social benefits in addition to financial profit. Private equity (PE) is one asset class that can be utilized in impact investing. In Finland, discussion on the possibilities of impact investing in the private equity field has been initiated, but so far impact investing has not been fully implemented into the market.

The purpose of this study is to investigate, which factors are currently restricting the development and growth of impact investing in the Finnish PE, and how the development could be enhanced. The possible development routes of impact investing, as a part of emerging sustainable finance scene, are also discussed in the context of theoretical framework of multi-level perspective (MLP). The data for this study was gathered by conducting 10 interviews with professionals working in the private equity industry. Both general partners (GP) and limited partners (LP) were interviewed for obtaining a broad perspective allowing thorough analysis.

Results of this study imply, that despite the growing interest towards impact investing, market development has been slow in the past years. Most pressing challenges have been vague definition of impact, leading to impact washing problems, as well as difficulties in impact measurement. Uncertainty of possible negative effect of pursued impact on financial return has also restrained investors' willingness to invest in impact funds. Additionally, several typical structures of private equity funds have been considered problematic for impact investing. Development of impact investing in PE requires support from several actors, most notably investors, PE firms, startups and public sector. There is also need for more comprehensive impact measurement tools and methods for standardizing and comparing impact of different products.

Despite of the challenges, impact investing arguably has a strong presence in the Finnish PE in the future. It seems probable, that impact investing will over time integrate as a part of mainstream private equity investing operations. This development route is supported by the MLP theory, which assumes that systemic transition occurs due to pressure from the society as well as emergence of novel niche innovations. Even though impact investing would integrate as an inseparable part of PE, a critical attitude towards impact measurement and communication is required for recognizing impact washing schemes.

Keywords impact investing, private equity, multi-level perspective

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Maisterintutkinnon tutkielman tiivistelmä

Tekijä Harri Sihvonen

Työn nimi Private Equity Pursuing Impact – Challenges and Development of Impact Investing in the Finnish PE Industry

Tutkinto Kauppatieteiden maisteri

Koulutusohjelma Creative Sustainability

Työn ohjaaja(t) Samuli Patala

Hyväksymisvuosi 2020 **Sivumäärä** 81 **Kieli** Englanti

Tiivistelmä

Vaikuttavuussijoittaminen on herättänyt viimeisten vuosien aikana huomattavaa kiinnostusta sijoitusmaailmassa sekä kasvanut rahamääräisesti. Vaikuttavuussijoittajat tavoittelevat aktiivisesti sosiaalisia ja/tai ympäristöhyötyjä taloudellisen tuoton lisäksi. Pääomasijoittaminen on yksi varallisuusluokka, joka mahdollistaa vaikuttavuussijoittamisen toteuttamisen. Suomessa on käyty keskustelua vaikuttavuussijoittamisen mahdollisuuksista pääomasijoitustoiminnassa, mutta toistaiseksi vaikuttavuussijoittaminen ei ole integroitunut osaksi markkinaa.

Tämän tutkielman tarkoitus on selvittää, mitkä tekijät tällä hetkellä estävät vaikuttavuussijoittamisen kehittymistä ja kasvua Suomen pääomasijoituskentässä, sekä miten kehitystä voitaisiin edistää. Vaikuttavuussijoittamisen mahdollisia kehityskulkuja osana kasvavaa vastuullisen sijoittamisen kenttää tarkastellaan myös teoreettisen multi-level perspective (MLP) -viitekehyksen valossa. Tutkielman aineisto kerättiin kymmenen haastattelun avulla. Haastatellut ovat pääomasijoitusalalla työskenteleviä ammattilaisia. Sekä pääomasijoitusyhtiöitä (general partner, GP) että rahastosijoittajia (limited partner, LP) haastateltiin laajan kokonaiskuvan saamiseksi ja syvällisen analyysin mahdollistamiseksi.

Tutkimuksen tulokset osoittavat, että huolimatta kasvavasta kiinnostuksesta vaikuttavuussijoittamista kohtaan, markkinan kehitys on ollut viime vuosien aikana hidasta. Keskeisimmät haasteet ovat olleet vaikuttavuuden epätäsmällinen määrittely, joka on johtanut impact washing -ongelmiin, sekä vaikuttavuuden mittaamisen vaikeus. Epävarmuus tavoitellun vaikuttavuuden mahdollisesta negatiivisesta vaikutuksesta tuottoon on myös hillinnyt sijoittajien halukkuutta sijoittaa vaikuttavuusrahastoihin. Lisäksi monet pääomarahastojen rakenteet ovat osoittautuneet haasteellisiksi. Vaikuttavuussijoittamisen kehitys pääomasijoittamisessa vaatii tukea eri toimijoilta, erityisesti sijoittajilta, pääomasijoitusyhtiöiltä, startupeilta ja julkiselta sektorilta. Tarvetta on myös kattavammille vaikuttavuuden mittausmenetelmille sekä tavoille standardisoida ja vertailla eri tuotteiden vaikuttavuutta.

Haasteista huolimatta vaikuttavuussijoittaminen on mahdollisesti vahvassa roolissa Suomen pääomasijoituskentässä tulevaisuudessa. Vaikuttaa todennäköiseltä, että vaikuttavuussijoittaminen integroituu ajan mittaan osaksi tavanomaista pääomasijoitustoimintaa. Tätä kehityskulkua tukee myös MLP-teoria, jonka mukaan systeemisen muutoksen saa aikaan yhteiskunnan muutospaine sekä uusien niche-innovaatioiden syntyminen. Vaikka vaikuttavuussijoittaminen integroituisi erottamattomaksi osaksi pääomasijoitustoimintaa, kriittinen suhtautuminen vaikuttavuuden mittaamista ja viestintää kohtaan on säilytettävä impact washing -toiminnan tunnistamiseksi.

Avainsanat vaikuttavuussijoittaminen, pääomasijoittaminen, multi-level perspective

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LIST OF ABBREVIATIONS

ESG: Environmental, social and governance
FVCA: Finnish Venture Capital Association
GIIN: Global Impact Investing Network
MLP: Multi-level perspective
PE: Private equity
PRI: Principles for Responsible Investment
VC: Venture capital

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1 INTRODUCTION

Modern financial system has been accused of its inability to serve individuals and societies in a sustainable way. Economy that is based on fossil fuel use and take-make-dispose culture is leading to vast environmental hazards, which are already realizing all over the world. Finance creates inequality, encourages to fraud and irresponsibility, and weakens democracies (Wolf, 2019). In September 2019, the US Business Roundtable, which consists of 181 executives of the largest companies in the world, abandoned the long-lived idea, that companies only exist to maximize their shareholders' value.

Changing the economy into a more equal and sustainable path seems to be especially in the interest of younger generations: based on a survey, only 27% of highly educated millennials (individuals born between 1983 and 1994) believe, that profits should be companies' primary goal (Deloitte, 2018). Additionally, most investors prefer making investments in causes that matter to them on a personal level (Combs, 2014). Therefore, it seems that the willingness for change is increasing, but there is a desperate need for actual tools for enabling the transition towards more sustainable economy, without risking the positive development in human wellbeing.

Traditionally investors have concentrated solely on getting maximal return for their money invested. During the last few years, responsible and ESG (environmental, social and governance) investing have been gaining more attention in scientific discussion and financial world. In practice, responsible investing can mean, for instance, that a mutual funds refrains from investing in oil or tobacco companies (negative screening). It is also increasingly popular amongst portfolio managers to actively seek for companies which ESG performance is better than their competitors' and allocate investments in them (positive screening). It can be argued, that responsible investing in its many forms is already mainstream. Between 2016 and 2018, assets linked to responsible investing increased by 34% to \$31 trillion and for instance in Europe, proportion of sustainable investing relative to total managed assets is close to 50% (Global Sustainable Investment Alliance, 2018).

Impact investing can be considered to be the most advanced form of sustainable investing. In addition to financial profitability, impact investors are committed to achieving a positive environmental and/or social impact (e.g. Clarkin and Cangioni, 2016; GIIN, 2019a). Instead of minimizing the negative footprint of their investments like in negative screening, impact investors are actively pursuing positive impact. In comparison to investors utilizing positive screening in their strategy, impact investors always set intentional impact targets and measure the achieved impact. It is important to notice, that impact investing is not an asset class, but rather an investing approach that can be followed in several types of investments, such as fixed income, real estate and investment funds (World Economic Forum, 2013).

While the interest towards impact investing is unquestionably growing in academic literature and business world, it has also faced criticism. Especially at the very early stages of development, there has been no common understanding or definition for impact investing amongst investors, which has limited the credibility of the field (Höchstädter and Scheck, 2014). During the recent years, knowledge has increased and there is stronger cohesion in defining impact investing, and arguably the trend will continue in the future. However, the profound question of impact investing rationale remains. Is impact investing actually an effective way for "getting the best of both worlds": generating financial profits, while simultaneously tackling environmental and societal challenges. There is a strong support for the thought, that to function properly, impact investing should compete directly with traditional investing without sacrificing profits (e.g. Abt, 2018; Chowdhry, Davies and Waters, 2018). On the other hand, in the modern financial markets, wealth tends to concentrate, and as Fram (2018) presents, it is unclear if these markets can be fully utilized for driving societal impact. Currently, there are no complete answers to these questions. In any case, there seems to be a vast interest and demand towards more sustainable financial methods from investors' side. Impact investing is one possible solution for answering this demand, and therefore there is a need for increasing knowledge and developing the industry further.

While impact investing is globally a growing trend, majority of the literature in Finland seems to focus on social impact bonds (SIB), which enable public sector organizations to pursue societal benefits by utilizing private money. In Finland, especially Sitra and the National Impact Investing Advisory Board have been working to build an ecosystem for developed SIB markets (Keltanen, 2018). Impact investing in other financial methods, such as private equity (PE) has been pointed less interest to. In 2017, Finnish Venture Capital Association (FVCA), Sitra and Deloitte published a report that studies the opportunities of impact investing in private equity. The report acknowledges the growing interest towards impact investing, but states that it has not been fully established in the Finnish PE scene. Actors in the Finnish market are waiting for the impact investing market to develop further, so that there is a more favorable environment for incorporating impact as a more inseparable part of private equity. Due to increasing interest towards impact investing in general, as well existence of unanswered questions regarding the relationship between impact investing and private equity, it seems clear that there are information gaps in the field which could be filled by conducting more research.

1.1 Research objective and questions

Even though impact investing is growing in terms of research, public discussion as well as actual money invested, it seems obvious there are several challenges to tackle. The purpose of this study, in addition to updating the overall understanding of the role of impact investing in the Finnish PE, is to help identifying possible bottlenecks and restrictions private equity investors are facing when it comes to impact investing. The study also attempts to set these restrictions in the wider, societal context and provide guidelines for the challenging task of establishing impact investing as a more commonly used investment approach also in the Finnish private equity field. Optimally, this research paper will be able to build from theory and empirical part to generate rather practical results. These results could be beneficial for academia and business alike and help the industry professionals to better evaluate the challenges and opportunities of impact investing.

To be able to analyze the barriers for impact investing, it is important to have a clear understanding of the current situation of the scene in Finland. Baseline for this study is the report conducted by FVCA, Sitra and Deloitte in 2017, which also introduces some of the main challenges PE firms are facing related to impact investing. Comprehension of the current situation will be expanded by empirical part of the research, and the objective is to gain a profound understanding of current restrictions of impact investing in PE. Additionally, a significant emphasis is on recognizing possible methods and actions that could reduce these barriers. The research questions have been formulated in the following way:

1. Which factors are restricting the growth and development of impact investing in the Finnish private equity field?
2. How could the development of impact investing in the Finnish PE be enhanced?

The research questions will be answered by utilizing data gathered by interviewing professionals in the Finnish private equity industry. It is noteworthy, that informants are not necessarily experienced in impact investing per se, but rather represent more traditional private equity industry and research questions have to be considered with respect to this aspect. Therefore, this study aims specifically to enlighten if and how impact investing could become a natural part of private equity investing in Finland. The research process and criteria utilized for selecting informants are discussed in chapter 3. At this point, it is noteworthy to mention, that in this study private equity includes both buyout and venture capital investments, which in literature are occasionally separated as two different asset classes.

Since the scope of the study is restricted to Finnish private equity markets, and informants are representing somewhat traditional private equity firms and investors, the focus is mainly on mainstream PE. There is an ongoing discussion about what is, and perhaps even more importantly, what is not impact investing. It is also questioned in the literature, whether impact investing should even be increased, especially as a part of more traditional investing. These questions and issues are carried along with the study and they will be an essential part of the theoretical background as well.

1.2 Structure of the thesis

Literature review explains the concept of impact investing and briefly discusses the history and development of the field. Since the key element that distinguishes impact investing from responsible or ESG investing is the measurable impact, some widely used methods for impact defining and measurement are presented, as well as some literature on building an impact investing ecosystem. Principles of private equity are also presented, before discussing the relationship of impact investing and PE, based on previous literature. The last part of the literature review presents a theoretical framework of multi-level perspective and discusses how it could be applied in the context of responsible investing and especially impact investing.

Methodological choices and data analysis process are presented in chapter 3, which also addresses the philosophical background and importance of the study. In chapter 4, the findings of the study are presented in a structured way, before continuing the discussion in chapter 5. Arguably, chapter 5 is the most important section of the paper, since it presents the findings in the context of previous literature and theoretical framework. Finally, chapter 6 consists of concluding remarks and implications of the study, while also addressing interesting topics for further research, recognized by this study.

2 LITERATURE REVIEW

In this chapter, the most important concepts of this study, impact investing and private equity, are presented. While both are widely discussed in academic and commercial papers, literature considering impact investing especially in the context of private equity is more limited. Therefore, the goal of this chapter is to create cohesion between these two fields, which is essential for answering the research questions of the study. Additionally, a theoretical framework of multi-level perspective is presented, to help understanding the sustainability transition of financial markets.

2.1 Impact investing

The Global Impact Investing Network (GIIN, 2019a) defines impact investing in the following way: "Impact investments are investments made with the intention to generate positive, measurable social and environmental impact alongside a financial return." In essence, impact investing aims to bridge the gap between finance and philanthropy, two sectors that have traditionally been very clearly separated from each other. By borrowing elements from nonprofit activities, that usually aim for increased humanitarian or environmental wellbeing, to for-profit investing with financial return being the driver, impact investing attempts to achieve both of these goals with the same investment. As the title implies, impact investing *is* investing, and it is important to distinguish impact investing from pure philanthropy. Even though it pursues social and/or environmental benefits, financial profitability is still a key element. Nicklin (2012) presents the evolving investment scene, as a spectrum of capital, which reaches from traditional, profit-maximizing investments to pure philanthropy. Figure 1 illustrates how impact investing is placed between these two extremities.

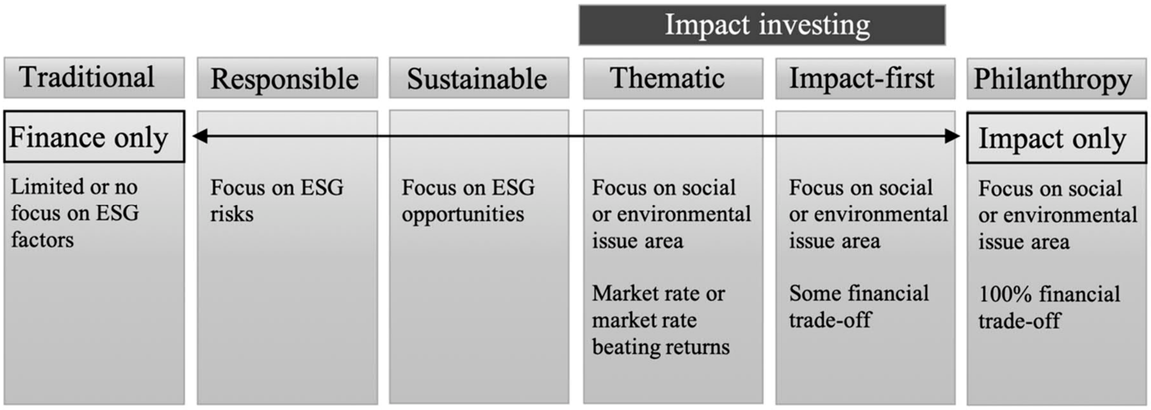

Figure 1: Spectrum of capital (adapted from Nicklin, 2012)

It can be argued that all investing has impact, be it economic, social or environmental. However, there are several factors, that distinguish impact investing from other types of investing. GIIN (2019a) presents four important characteristics, which are distinctive for impact investing:

1. Intentionality: investor should have a clear, predefined intention to create positive social or environmental impact.
2. Investment with return expectations: impact investors are expecting financial return on their investments.
3. Range of return expectations and asset classes: investments are made across asset classes, such as cash equivalents, fixed income and private equity. Return targets vary from below market rate to market beating returns.
4. Impact measurement: impact investors are committed to measure and report the environmental and social impact. Impact measurement methods and tools vary based on investors' objectives and capacities.

Impact investors are also committed to using evidence and data in impact design, instead of basing impact targets in subjective assumptions. In addition, they usually manage and communicate their impact to support others in the investment chain and are contributing to the growth of the industry (GIIN 2019b).

While these criteria help to understand the nature of impact investing in comparison to regular investing, it is essential to profoundly comprehend the meaning of impact; what does it mean for an investor to pursue societal or environmental benefits? To answer this question, Brest and Born (2013) divide impact into three parameters: enterprise impact, investment impact and nonmonetary impact. Enterprise impact essentially means the impact of the goods and services provided by the investee, as well as impact of its management practices, such as job creation and community well-being. Investment impact is the social impact of the single investor's financial contribution. It can be argued, that one investor's share of impact is limited, when it invests in solar energy project, for instance, which has or would have attracted several investors (whether they are impact investors or not) in any case. Nonmonetary impact wells from investor's other activities, that support investee's social outputs. These could be, for instance, promoting impact investment opportunities or providing investment or governance assistance. Even if an impact investor did not separate impact into these sub-categories, it should compare its planned or achieved impact with the scenario where the investment was not executed, to understand what the real impact of the specific investment was.

2.1.1 Measuring impact

Impact measurement has been widely recognized as one of the major challenges in impact investing in general. Yet the ability to measure the impact is vital for impact investors, since lacking assessment has raised concerns about reliability of impact investing, in terms of achieving both financial and societal benefits (Brest and Born, 2013).

So and Staskevicius (2015) have grouped impact measurement models into four categories. Expected return methods aim to calculate the expected benefits of investment and compare them to expected costs. Arguably the best-known expected return method is social return on investment (SROI), which monetizes the expected social benefits of the investment, thus helping investor to assess the performance (Lingane and Olsen, 2004*)*. Theory of change methods map the process that ultimately leads to planned social impact. Measuring the impact of complex programs numerically with SROI, for instance, can be very challenging. Theory of change methods are more flexible in describing the link between program inputs and impact. Mission alignment methods measure the execution of the program against its goals by utilizing specific scorecards, for instance. Finally, experimental and quasi-experimental methods concentrate on finding counterfactual and comparing the achieved result with it (So and Staskevicius 2015).

Especially counterfactual thinking is a useful method for allocating impact of an investment correctly. Counterfactual is essentially the alternative state of the world: what would have happened in the absence of the intervention, in this case the impact investment (Spiess-Knafl and Scheck, 2017; Brest and Born, 2013). Arguably, many impact investors report their impact in a simpler way. For instance, an impact of a wind power project, could be the amount of CO_2 emissions reduced by replacing fossil electricity with wind electricity, by the amount the wind park produces per year. In many cases this kind of approach seems to be suitable, and most would agree that a desired impact was achieved. However, to more specifically allocate the impact to this specific project, the counterfactual thinking should be applied. Would the wind power project have been executed without the impact investment, by other investors? Taking the counterfactual into account makes the impact measurement more reliable but also more complicated.

The four categories of impact investing measurement methods are split to countless tools and guidelines. Even though, in general, specific assessment methods might be suitable for certain type of investments, often applicable methods should be chosen case by case. It can also be justifiable to use several types of methods in measuring impact of a single investment. In section 2.3.2, a closer look at impact measurement tools commonly used in private equity investments is taken.

2.1.2 Impact and return

One of the most important distinctions between different types of impact investors is their return preference. Investors with reduced financial return expectations seek positive returns but may be satisfied with negative return if needed for achieving the social target (Spiess-Knafl and Scheck, 2017). These investors are often called impact first investors. Since for them impact is the main driver, they may be more willing to try new models in order to pursue impact and address more complex issues. Therefore, below-market returns may be acceptable (Balandina Jaquier, 2016). The other main group consists of finance first investors, who expect market-rate or market beating returns. Concerning impact, they often focus on less challenging issues and lower-risk models (Spiess-Knafl and Scheck, 2017; Balandina Jaquier, 2016). Even though there are some nonprofit organizations and foundations which are satisfied with lower returns, most institutional and private investors are expecting market returns.

In finance, investment decisions are usually made based on return and risk. Essentially, the risk-return tradeoff means that when building a portfolio, investors have to make decisions regarding their demanded return as well as willingness to take risk. Increased return, in general, comes with the price of increased risk. In impact investing, the model becomes more complicated, since now tradeoffs must also be done in terms of achieved impact. Naturally, this is a theoretical model, which rarely covers all the aspects of real-life investment decisions. An impact investment may cause positive impact spreading far beyond the predicted impact horizon. Still, since impact investors should be able to define and measure impact of their investment, this model could be used as a guideline, and intentional impact is the third dimension in addition to return and risk. Figure 2 illustrates this relationship between different dimensions of impact investing compared with regular investing.

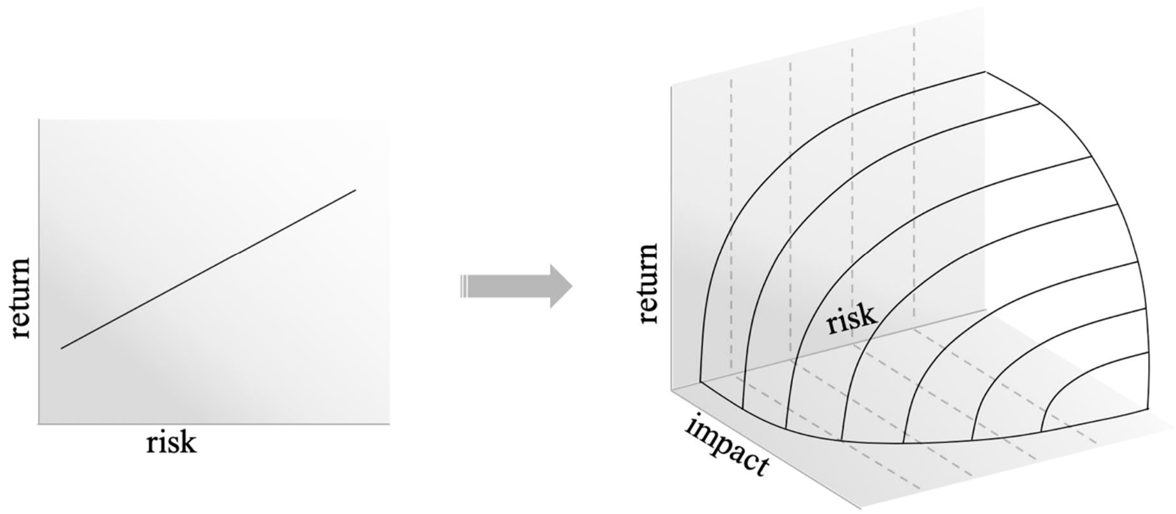

Figure 2: Investment dimensions in regular investing and impact investing (adapted from Emerson, 2011; Dunn, 2006)

There is an ongoing discussion about whether impact investing is actually able to bring positive social or environmental impact without sacrificing financial return. While a comprehensive answer is lacking, there seems to be evidence supporting the idea, that these two dimensions are not necessarily conflicting. Finkelman (2017) presents, that even if modern portfolio theory is complemented with impact (or social return), there are "flat sections" on the investment frontier, where impact investments with competitive, risk-adjusted returns can be found.

2.1.3 Market and development

Modern impact investing has its roots in the early 1900s United States. Community development finance institutions were established to provide jobs and funding for high-risk, low income markets. Allocating money to profitable but risky emerging market investments is also the original idea of modern impact investing (Littlefield, 2011). Today, the core of impact investing is offering funding for social innovations. Since 1980's the term social enterprise has been used in scientific research (Spiess-Knafl and Scheck, 2017). There are several definitions for social entrepreneurship, but one of the most practical ones is offered by the European Commission (2013): regardless of its legal form, a social enterprise primarily seeks to achieve measurable, positive social impact rather than generating profits for its owners. This definition of social enterprise shares the same base idea with the definition of modern impact investing and arguably the original approach in impact investing has been allocating money in social enterprises. However, as presented before, today investors are placed on a spectrum ranging from traditional profit maximization to pure philanthropy and impact investing is located in between. Impact investing has broadened from its original form to cover several asset classes and financial instruments.

Somewhat varying definition and understanding of impact investing amongst investors makes it difficult to precisely report the size of impact investing market. Mudaliar and Dithrich (2018) estimate, that in 2018 the overall impact investing industry assets under management equaled USD 502 billion and there were over 1 300 active impact investing organizations. Geographically most impact investors are located in the US and Canada (47%) and Western Europe (30%) (Mudaliar, Bass and Dithrich, 2018).

Estimates of the size of impact investing market conducted by PRI (2018) differ from those of GIIN. Interestingly, PRI has separated impact investing into two categories: traditional impact investing and mainstream impact investing. Mainstream impact investing is considered to mean investments targeting large, often public businesses that are attractive to institutional investors, whereas traditional impact investing consists of investments made to more immature, illiquid and innovative companies that often seek for larger, disruptive impact in the long term (World Economic Forum, 2013; World Economic Forum, 2014). Based on the estimates of PRI (2018), in 2016 the size of traditional impact investing market was 218 billion USD, while mainstream impact investing accounted for 1.3 trillion USD. While the fluctuation in estimates underlines the challenge of defining what impact investing actually is, it might be reasonable to divide impact investing field into these two categories.

Based on a survey conducted by Mudaliar, Bass and Dithrich (2018), almost half (46%) of impact investors globally are for-profit fund managers, which also includes PE investors. However, amongst all impact investors, the share of PE investors is only 24%. Results of the survey clearly indicates, that most impact investors see impact investing as a direct alternative for traditional investing instead of philanthropy. Two thirds of impact investors are focusing solely on impact investing and most of them (64%) are attempting to achieve risk-adjusted market rate returns. Amongst PE investors, the number of investors targeting market rate returns is even larger at 80%. In general, impact investors are seemingly not willing to sacrifice financial profits to achieve greater social or environmental impact.

Impact investors are facing a vast challenge in attempting to combine positive financial returns with intentional societal benefits. Since impact investing is still considered a rather new financial method with moderate track record, it is crucial for impact investors to rationalize its usefulness and potential. Specifically, impact investors should be able to proof their ability to produce increasing financial return and tackle social and environmental issues also in the continuously growing market. Additionally, there is a need for making impact investing more accessible to a broader audience of individuals and institutions, while simultaneously creating cohesion in the industry by conceptual clarity and standardization (Bouri et al., 2018).

2.1.4 Impact investing ecosystem

Development of impact investing seems to be a rather global phenomenon. However, there are differences between political, cultural and geographical areas, when it comes to efficiency and level of progress of impact investment marketplaces. To understand, why some regions have more developed impact investing market compared to others, Roundy (2019) presents a concept of impact investing ecosystem. For a vibrant impact investing ecosystem to develop, especially three factors are crucial: ecosystem diversity, coherence and coordination. Critical requirements for such ecosystem are especially diversity in impact investors and investment opportunities, a set of likeminded investors seeking for both financial and societal benefits, sufficient coordination between investors and other ecosystem participants and supporting organizations enhancing the cooperation (Roundy, 2019).

Tekula and Andersen (2019) recognize the crucial role of different actors in the development on impact investing field as well. Most notable actors are national and local government agencies, nonprofit organizations and foundations, for profit corporations, asset managers and institutional investors. All these organizations have significant role in facilitating the impact investing marketplace and helping impact investing to grow reach its potential market size. There are several facilitation types each organization can utilize in the process. Tekula and Andersen (2019) have divided these facilitation types into four categories: enabling, improving, moving and launching. When a facilitator takes an enabling role in impact investing marketplace development, it helps to create relevant infrastructure, increases supply and regulates demand. The role of public sector is crucial especially in this first phase of marketplace creation. Improving means that a facilitator fixes issues related to, for instance, externalities and asymmetric information. Nonprofit organizations can contribute to the marketplace development especially in this phase. In the moving phase, markets are being prepared for taking off. Governments, private foundations and nonprofits can boost the market by providing long term capital. The final phase, launching, means that more assets will be moved into the impact investing marketplace. Private capital has a key role in this phase.

Public sector organizations and regulation seem to be in crucial role in enabling the development of impact investing. Bugg-Levine and Emerson (2011) argue, that regulation in well-governed market is usually efficiently supporting investments and business activities, as well as charitable activities. However, activities combining investing and philanthropy, which impact investing is a clear example of, might not be completely recognized and supported by regulation. Bugg-Levine and Emerson (2011) divide regulative actions for supporting impact investing in three approaches: 1. Promoting social enterprise, 2. Promoting impact investing, 3. Shaping the marketplace for impact investing. The bottom line is, that impact investors pursuing both profit and social value, should be better acknowledged by corporate law, subsidization, tax incentives and public mandates, among other things.

2.2 Private equity

Private equity is a financing method, in which professional investors invest in non-public companies. In addition to funding, private equity investors bring their knowledge and professional skills for the use of invested company. In turn, the portfolio company usually gives shares and thus some degree of ownership for the PE firm. (FVCA, 2019a). The PE firm aims at increasing the portfolio company's value by enhancing its corporate governance and capital structure, for instance, and actively participating in the company's management. By finding several potential portfolio companies suiting its investment strategy, the PE firm builds a portfolio of companies, which reduces its risk exposure compared to return opportunities (Fraidin and Foster, 2019). These portfolios of companies are essentially private equity funds.

2.2.1 Characteristics

Private equity investments are usually performed in several stages which typically follow a certain pattern. First, a private equity firm and/or fund is founded, and it starts raising money especially from institutional investors, such as commercial banks, pension insurance companies etc. (Pajarinen, Rouvinen and Ylhäinen, 2016). Commonly, private equity funds are limited partnerships, where PE firms act as general partners (GP) and investors as limited partners (LP) (e.g. Fraidin and Foster, 2019). Next, the PE firm starts looking for potential companies to invest in, executes the investments and begins to help the portfolio companies to develop their business. In the last phase, the PE firm makes an exit: it realizes the returns, by paying back to limited partners and keeping predefined management and performance fees (Pajarinen, Rouvinen and Ylhäinen, 2016). Common exit strategies are, for instance, corporate acquisitions, initial public offerings and selling the company to another PE firm (FVCA, 2019b). Figure 3 visualizes the lifecycle of a private equity fund.

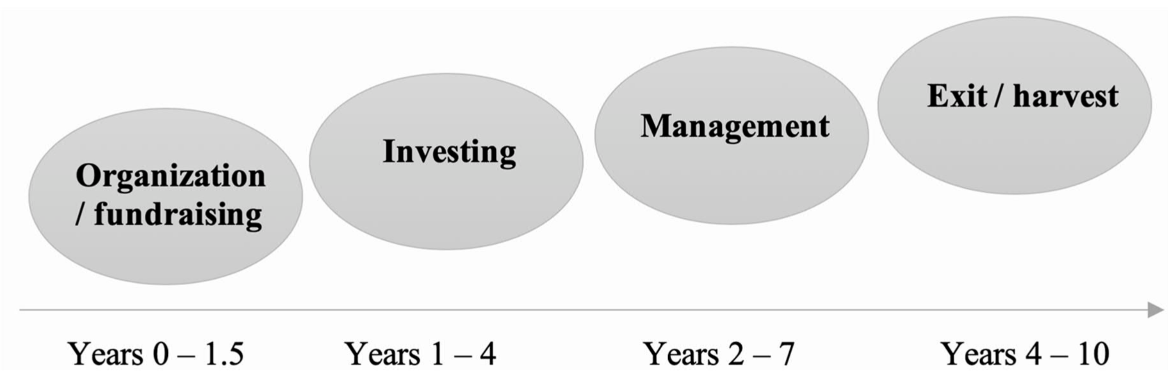

Figure 3: Typical stages and lifespan of a private equity fund (adapted from Cendrowski et al., 2012)

Two of the most commonly mentioned subcategories of private equity are venture capital (VC) and buyout. In venture capital, emphasis is on building new business with private equity investments, whereas buyout refers to restructuring of existing business (Pajarinen, Rouvinen and Ylhäinen, 2016). A third often used category of private equity investing is growth capital, which can be seen as a subcategory for buyout, since invested companies usually have an established business and steady cash flow. Due to differences in typical portfolio companies in VC and buyout, there are several differences also in investment process. VC funds usually raise funds in several investment rounds, whereas buyout funds are often financed by a single investment agreement. There is only a small group of companies that are relevant for VC investors and VC industry is very dependent on the economic cycle of a certain industry, since VC investors attempt to predict the future growth potential and the "next big industry". Buyout concerns a larger group of companies and buyout investor are, in general, especially interested in the company itself. VC is a larger sector based on the number of investments made, but buyout is more significant in terms of money invested (Pajarinen, Rouvinen and Ylhäinen, 2016).

Private equity is an important source of funding and guidance, especially for many startups and growth companies. By actively screening companies that have potential for development and success in the future, PE firms advance innovation, competition and regeneration, while also generating profits for institutional investors, such as pension funds. However, private equity field has also been a target for criticism. Private equity investors can initiate massive investments while leaving most of the risk for others to take and large leveraged buyouts have led to cost-cuttings at the expense of many people's jobs (Financial Times, 2019). In the end, private equity still has potential to drive societal benefit. Indahl and Jacobsen (2019) argue, that after driving leveraged buyouts in the 1980s, increasing companies' operating efficiencies in the 1990s and building large financial institutions in the 2000s, PE firms of today are increasingly considering ESG factors as a source of competitive advantage to build long lasting value.

2.2.2 Private equity market in Finland

As of 31.12.2019, there were over 200 private equity funds registered in Finland, managed by more than 60 firms (Bank of Finland, 2019). FVCA (2019b) offers statistics on the size and development of private equity in Finland. In 2019, Finnish PE firms raised €919 million in total, including €384 million for VC investments. Finnish PE firms invested in both domestic and foreign companies, but the vast majority (€496 million vs. €52 million) was allocated to Finnish companies. In total, Finnish companies received private equity funding from Finnish and foreign investors for €1013 million, including €293 million worth of VC funding.

In 2018 and 2019, Finnish PE firms' investments as a percentage of GDP was lower than the European average. However, traditionally Finnish companies have been very attractive in the eyes of PE firms. In 2018, Finnish companies attracted fifth most private equity funding (% of GDP) after only Denmark, Netherlands, UK and France. In 2019, the result was somewhat weaker, mostly due to decrease in buyout investments in Finland. In VC markets, Finnish companies received the highest amount of funding, in relation to GDP, in both 2018 and 2019 (Invest Europe, 2019; Invest Europe, 2020).

Large, institutional investors have a key role in private equity, since they are the main source of initial funding. In Finland, especially pension insurance companies have traditionally been active in private equity (FVCA, 2019a). Pension funds' and fund of funds' crucial role as financiers is typical to Nordic countries in general. Other investors relevant for the Finnish private equity field are insurance companies, foundations, family offices and government agencies (Invest Europe, 2020).

In general, it seems that after the financial crisis of 2007–2008, Finnish private equity field has been slowly recovering, and trend in fundraising has been mostly positive throughout 2010s. In the recent years, uncertainty in the financial markets has seemingly affected also private equity, since the growth has been moderate or negative, especially in buyout. VC, on the other hand, has attracted large amounts of money especially from private investors, which has also ensured that Finnish startups have received record-high funding. (FVCA, 2019b; FVCA, 2019c). Private equity seems to be less affected by financial crises, than stock markets, for instance. In fact, crises can be opportunities for PE firms to buy companies at attractive prices (Segal, 2020; The Economist, 2020). Still, the crisis launched by the coronavirus pandemic in 2020 might be a serious threat for the access to finance for Finnish startups, if asset managers decrease their investments in private equity (FVCA, 2020a). Additionally, even if private equity funding was available, restructuring of companies due to the crisis, may result in lost jobs, for instance (Segal, 2020).

2.3 Impact in private equity

As discussed before, impact investing is not an asset class, but an investment philosophy that can be applied in several asset classes. Even though it could be assumed there are differences in how impact investing is adopted in specific asset classes, majority of research seems to discuss impact investing as one entity. There are only few scientific articles discussing impact investing specifically in the context of PE, which is curious, since according to GIIN (2020a), private equity is the most common asset class in terms of impact investing funds, which in turn comprehend a significant quantity of the total assets under management in impact investing.

As presented earlier, impact investors can be roughly divided in two groups, based on their return preferences. Separation of finance first investors and impact first investors is arguably somewhat comparable to PRI's classification of traditional impact investing and mainstream impact investing. This separation is relevant concerning the scope of this study, which builds on the traditional base of impact investing but concentrates on more mainstream actors by methodological choices. Therefore, in this section discussion about the relationship between private equity and impact investing is mostly delimited to finance first investors. However, even if a line would be drawn between these categories, it is important to notify, that all impact investors exist in the same ecosystem and are complementary to each other (PRI, 2018).

2.3.1 Adopting impact approach

What would be the underlying reasons for pursuing impact by PE? Kipfer (2019) has studied what motivates impact investors based in Finland and India, including those operating in private equity field. In general, it seems that personal motivation of doing something good for the planet and the people, in economically sustainable way, is often the main reason for adopting impact strategies. The importance of personal motives is also recognized by a survey conducted by The One Initiative (2019). Investors from the Nordic countries seem to consider impact investing as a potential way for achieving their social and environmental goals. In addition to this internal agenda, external factors, such as contribution to global agendas like Paris Climate Accord and requirements from clients, seem to be important motives behind impact investing activities. As presented before, there is no completely uniform understanding whether trade-offs between impact and financial return are inevitable. However, it seems that investors in the Nordic countries believe, that there is no conflict between these aspects, as the vast majority of both finance first and impact first investors are targeting market rate or above market rate returns (The One Initiative, 2019).

Whether the reason for adopting impact approach is attractive return opportunities or personal values, it seems that PE firms are able to pursue positive impact via two channels. When establishing funds, PE firms screen their possible investees, and choose portfolio companies, which are satisfying the requirements of their impact strategy. On the other hand, one distinctive feature of private equity in general, is PE firms' active involvement in portfolio companies' business and development. By studying French private equity scene, Crifo and Forget (2013) came to the conclusion that PE firms have a significantly better chance to incorporate ESG aspects into portfolio companies' business, than public investors have. By combining screening in pre-investment phase and active involvement in ownership-phase, PE firms most likely also have better opportunity to embrace impact investing guidelines in their operations, compared to many other asset classes.

It seems, that impact investing suits, at least in the early stages of development, markets that allow more maneuverability and angles for grasping the impact approach. Brest and Born (2013) present, that impact investing most naturally occurs in markets subjective to specific frictions. Some examples of frictions that could suit the development of impact investing are described in table 1.

Table 1: Market frictions supporting impact investing (Brest and Born, 2013)

Friction	Description
Imperfect information	Lacking knowledge about opportunities and risks, especially applicable for niche markets
Skepticism about achieving both financial returns and social impact	Socially neutral investors may underestimate the return opportunities of investments with social and environmental benefits
Inflexible institutional practices	Impact investing opportunities may not be aligned with institutional investors' interests due to formal practices
Small deal size	Impact investments tend to be relatively small in size, which might help in risk management
Limited exit strategies	Especially in developing economies, financial markets might not support traditional exit strategies
Governance problems	Possible governance problems might cause some investments' risks assessment to appear too difficult for large scale investors

While many of these frictions are especially typical for developing countries and niche markets, several of them seem to be applicable to private equity field in general. For instance, private equity market is arguably in many cases exposed to imperfect information. There are investment opportunities, which are not applicable for most investors, but can appear tempting for private equity investors with extensive expertise and knowledge. These cases can therefore allow pursuing financial return and impact simultaneously. This holds especially for VC markets, which focus on recognizing future trends and industries.

Based on research, it seems that private equity has potential to positively impact societies and create wellbeing. This applies especially to innovation and technology-intensive industries: private equity has had a significant role in scaling up innovations and creating commercial potential (Pajarinen, Rouvinen and Ylhäinen, 2016). Perhaps the most traditional way to incorporate impact investing in private equity, is through venture capital firms. Cetindamar and Ozkazanc-Pan (2017) discuss VC firms' role as hybrid organizations. Battilana and Dorado (2010) define hybrid organization as an "organization that combine institutional logics in unprecedented ways". In the case of impact investing, this would mean the simultaneous aim to achieve financial and societal or environmental impact. VC firms acting as hybrid organizations are investing in socially driven companies and helping them in achieving impact, while also pursuing financial return for themselves (Cetindamar and Ozkazanc-Pan, 2017). It is important to notify, that this kind of activity, where hybrid organizations invest in mission-driven enterprises and are possibly accepting lower than market returns, is a very small fraction of VC investing, which in turn is only a portion of the whole private equity field.

It is important to remark, that even though a particular private equity investment might have positive impact, it is not necessarily impact investing. As presented before, there are several criteria for impact investing. Most importantly, it intentionally pursues measurable social and/or environmental benefit. In any investing, positive impact can be achieved as a by-product, but intentionality and measurability are key characteristics for impact investing. Arguably, also traditional PE firms could still start investigating possibilities for impact investing, by studying the foundations of their current social and environmental impact, which are achieved as a by-product of investments.

2.3.2 Impact modelling and measurement in PE

Based on the survey conducted by Aalto Fellows (2019), 55% of the Finnish PE firms are using impact investing frameworks to model some or all of their portfolio companies. Again, having impact does not automatically define a fund as an impact fund, even if the impact is measured. Nevertheless, there clearly is demand for impact measurement tools. 34% of the respondents using impact investing frameworks have created their own impact measurement tool and 66% are using existing frameworks, most popular being SDGs, GIIRS, Upright Project and IRIS.

The United Nations Sustainable Development Goals (SDGs) are 17 global goals aiming at progress in the areas like poverty, climate change, energy and social justice. Impact investors can use SDGs as an impact measurement tool by tailoring their funds to specifically addressing one or multiple goals (Mudaliar, Bass and Dithrich, 2018). IRIS is a free and public impact measurement framework provided by the GIIN. The main goal of IRIS is to provide standardized metrics for impact investors and help them to translate impact intentions into actual results (IRIS+ System, 2019). Global impact investing rating system (GIIRS) is an impact rating provided by a nonprofit organization called B Analytics. By following GIIRS procedure, a fund is rated in three parts: overall impact business model rating, overall operations rating and fund manager assessment. Additionally, GIIRS provides funds ratings in specific categories, such as community, environment and governance (B Analytics, 2019). Upright Project is a commercial service that uses public information and scientific literature to evaluate companies' net impact. By utilizing machine learning, the tool grades companies by their performance in 19 impact categories in four dimensions of environment, health, society and knowledge (Upright Project, 2019).

2.3.3 Challenges of impact investing in PE

As discussed in section 2.1.5, building an efficient impact investing ecosystem needs support from several actors. There have to be enough innovative startups and growth companies creating solutions for social and environmental problems. These companies should find investors who emphasize impact targets in their investment strategy and have willingness to take the risk of being frontrunners. Arguably, the main incentive for PE firms to establish impact funds comes from institutional investors, which act as limited partners in the funds. Based on the survey conducted by Aalto Fellows (2019), a vast majority of PE firms think that LPs are interested in impact matters and that the interest has grown during the last few years. Virtually all respondents also believe, that LPs' interest towards impact investing will increase in the future. However, only 26% of respondents think that LPs are currently imposing impact targets for funds. On the other hand, also institutional investors are expecting more active articulation and communication of impact matters from PE firms

(FVCA, Sitra and Deloitte, 2017). For PE firms, some of the main obstacles preventing the implementation of impact strategies seem to be lack of encouraging examples in the ecosystem, lack of relevant deal flow and lack of knowledge. There are also difficulties in impact measurement and lack of investment opportunities with potential financial performance (Aalto Fellows, 2019).

Based on the definition by GIIN, there are three main features in impact investing: returns (financial and social), measurement and intentionality. While returns and measurement are rather straightforward to comprehend, defining intentionality seems to be more puzzling. As discussed before, private equity investments most likely always have some positive impact, even if it was complicated to measure. However, not many PE firms are intentionally seeking pre-defined social or environmental impact and communicating it. Therefore, it is necessary to draw a line between private equity investing which has impact and actual impact investing which utilizes private equity as an asset class. Findlay and Moran (2019) present, that failure in recognizing this distinction can lead to a problem called purpose-washing, which in the context of impact investing can also be called impact washing, by which funds are falsely presenting themselves as impact funds. Even if this kind of attitude and behavior could ostensibly lead to rapid growth of the industry and speed up the mainstreaming process, it would eventually lead to serious legitimacy problems.

To turn the growing interest towards impact investing into commitment and action from both GP and LP sides, more profound understanding of impact is needed. As presented before, lack of knowledge and expertise in impact measurement are restricting PE firms' ability to add impact aspects into their business. There have been significant differences in how professionals comprehend impact investing, even within organizations (FVCA, Sitra and Deloitte, 2017). Lack of mutual language within and between organizations clearly restricts the opportunity for creating a functional impact investing ecosystem. Public sector organizations and nonprofits have an important role in facilitating discussion and sharing information and academic research can in turn create new knowledge. Roundy (2019) presents, that to optimally contribute in ecosystem development, impact investment literature should more comprehensively consider the regional and socio-economical context. In general, when studying impact investing, it is important to take the role of specific actors, as well as external factors into account.

Seemingly, the main challenge of impact investing in the Finnish PE has so far been early stage ecosystem, which especially has appeared in the form of lacking track record of impact investment funds. Institutional investors also find small average deal sizes of impact investing problematic, as well as its strategic fit to their portfolio. Also, institutional investors often find the measurability of impact funds insufficient (World Economic Forum, 2013). So far, both PE firms and institutional investors have been lacking knowledge and been waiting for the other party to make the first move in developing a functional marketplace.

2.4 Theoretical framework: multi-level perspective

As has been mentioned, impact investing is one possible method for integrating sustainability into finance. The European Commission (2020) defines sustainable finance as "the process of taking due account of environmental and social considerations when making investment decisions, leading to increased investment in longer-term and sustainable activities." Ultimately, the purpose of impact investing, as well as sustainable finance in general, is to ensure the longevity of societies, by allowing them to mitigate adverse consequences of natural and human activity and adapt to changing conditions. It is justifiable to assume, that financial systems are subjects to transition, as their ability to answer the societies' requirements are constantly evaluated.

In the section 2.3.3., some of the most common issues concerning impact investing in PE, were presented. While the purpose of this study is to distinguish and further analyze the current challenges preventing the development of impact investing in the Finnish private equity field, significant focus is also pointed on recognizing how the development could be enhanced in the future. In this section, development of sustainable finance, and especially impact investing, is considered with respect to a theoretical framework of multi-level perspective (MLP). This examination might help in critically evaluating the possible development routes, and in selecting most applicable methods for supporting them.

2.4.1 Sociotechnical systems and change

The concept of MLP is based on research on technical change. Rip and Kemp (1998) present that in the focus of technical change is understanding how technology is formatted by political, economic and social constructs and is simultaneously affecting the development of the societies. Long term technical changes in the ways the societies work, in terms of transportation, communication and housing, for instance, are called technological transitions (Geels, 2002). MLP framework was introduced by Geels (2002), as one tool to clarify how technological transitions break out. During the past years, the idea of MLP has been broadened from technological transition, to discuss a wider scope of sociotechnical systems. Especially, it has been used as a guideline for examining sustainability transition, for instance a shift towards green energy. It seems, that MLP could also be helpful for understanding the challenges and development of impact investing as an emerging part of financial markets. MLP has been discussed in the context of responsible finance before. However, extending the MLP framework to cover impact investing seems to be a novel adaptation.

Sociotechnical systems can be comprehended as clusters of aligned elements, such as culture, markets, regulation and technology (e.g. Kern, 2012). Essentially, MLP framework attempts to perceive changes in such systems, by investigating interaction between their different levels. Sociotechnical regime, or a meso level in MLP, represents the current state of the system and stability of existing technological development. Sociotechnical landscape (macro level), consists of technological trajectories, which can be seen as external factors slowly formatting possible directions for future evolution. The level of niche innovations (micro level) represents the generation of radical innovations (Geels, 2002). Figure 4 illustrates the relationship between these three levels.

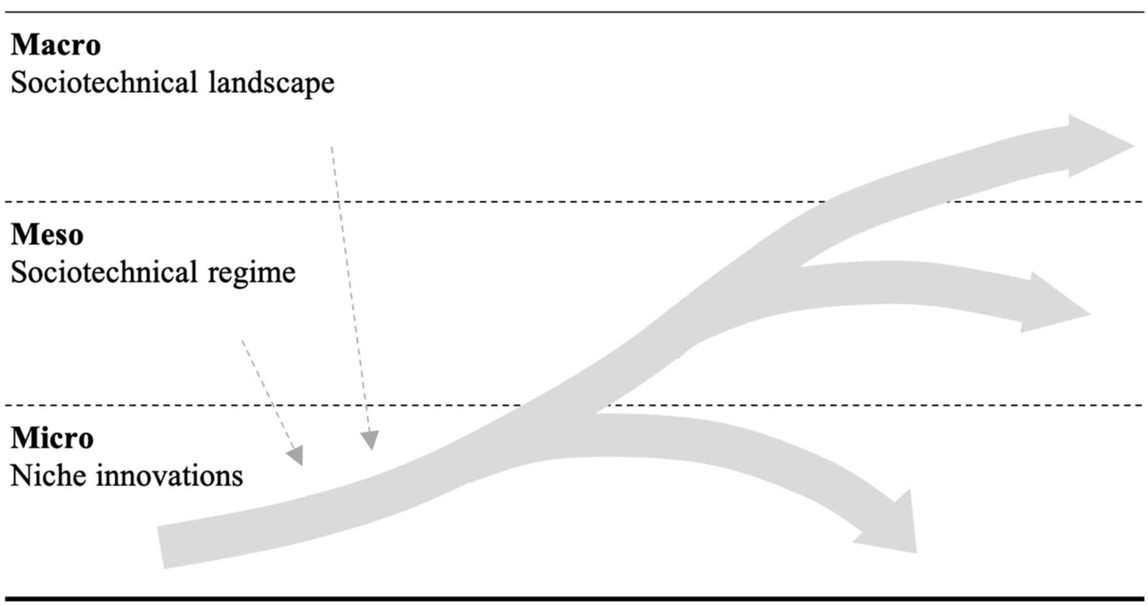

Figure 4: Evolution of sociotechnical change (adapted from Geels, 2002; Kemp, Rip and Schot, 2001)

According to Geels (2002), technological transition initiates in niches, which are, on the other hand, influenced by development in sociotechnical regime and landscape. While most innovations are short-lived, occasionally processes and environment in the upper level create a window of opportunity for innovations to get evolved and integrated on the regime. Over time, the modified regime may bring about changes on the landscape level.

2.4.2 MLP in the context of sustainable finance

According to Urban and Wójcik (2019), financial sector operates within the socio-technical landscape, which consists of economic, social and political structures. Capitalism and globalization are some the main ideologies forming the current landscape, and their influence is reflected on regime and niche levels. Socio-technical regime of finance lies beneath the socio-technical landscape. At this level, financial market fulfills its purpose, which essentially is allocating capital and resources in an efficient manner. Alternative technical modalities originate on the bottom level. These innovations grow in niches and are not competitive with the existing regime, at the early stages. Zioło et al. (2019) have also utilized the concept of MLP to examine how ESG factors are taken into account by financial institutions and whether the involvement of these factors results in a more sustainable financial system.

In Urban and Wójcik (2019) and Zioło et al. (2019), socially responsible investments and ESG metrics are seen as niche level innovations. Most financial systems are still based on neoclassical economics, which emphasizes maximization of profits and shareholder value and these ideologies are forming the current regime of finance (Ryszawska, 2016). However, even though responsible finance and ESG framework are also in the development phase, they are widely adopted concepts in the financial markets, including Finnish PE. Therefore, it could be considered, that at least some features of responsible investing are already on the regime level in the MLP-model. This would allow the investigation of impact investing as a new, emerging innovation developing on the niche level.

Examining impact investing in the perspective of MLP is based on the same idea of comprehending financial markets as a sociotechnical system. Now, the point of interest is how impact investing could evolve by changes in the landscape and niche levels and thus become a part of sociotechnical regime, ultimately modifying the new landscape. An illustration of the MLP approach of impact investing, constructed to especially address the research questions of this study, is presented in figure 5.

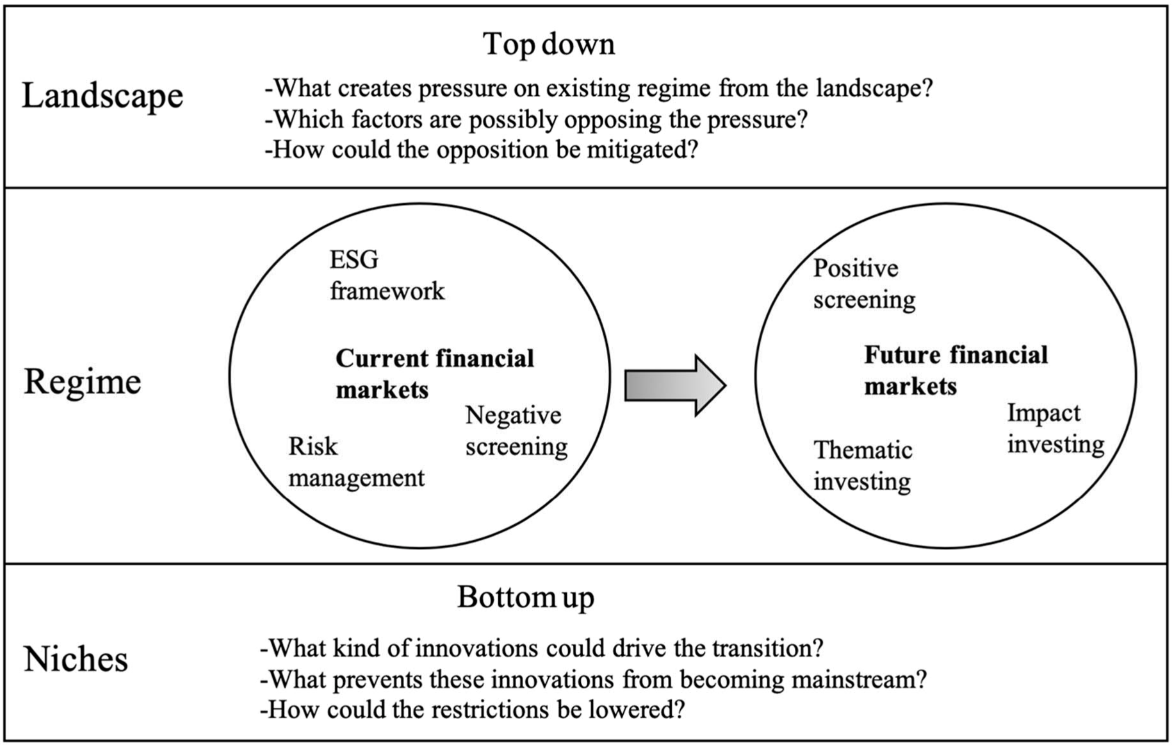

Figure 5: Adaptation of MLP in the context of research questions

Since impact investing is only one approach of responsible investing, it will develop simultaneously with other strategies emerging to the markets. Even though impact investing is in the focus of this study, the signals from sociotechnical landscape and niches affect the development of the financial markets comprehensively. Therefore, in figure 5, also other advanced sustainability strategies, such as positive screening and thematic investing are illustrated. Also, the focus of this study is on PE market, which only represent a small proportion of financial markets, and thereby the sociotechnical system. Despite of these constraints, MLP appears to be a useful tool for discovering the overall environment and diffusion of impact investing, which is currently, despite the strong presence in financial discussion, still a niche market.

Figure 5 captures the most important topics of this study. The main point of interest is investigating which factors are restricting the growth and development of impact investing in private equity. In the context of MLP, this would essentially mean finding factors that prevent customs essential for impact investing from streaming from the sociotechnical landscape to the regime. Perhaps even more crucial aspect is considering which factors prevent innovations growing on the niche level to be able to root on the regime. It is assumed that evolution of impact investing is following the pattern where the top-down pressure and bottom-up opportunities will over time modify the regime and create a new norm. Of course, the whole financial system is on a constant move, and development also initiates within the sociotechnical regime. Still, sociotechnical landscape and niche innovations can be seen as a motor for the change. In chapter 5, MLP approach will be utilized to discuss the results of the study, while reflecting the findings from gathered data.

3 METHODOLOGY

This chapter presents the methodological background and choices of the study. Methods, data collection and analysis significantly affect the quality of the study, and therefore they are discussed in detail in the chapter. The most notable limitations regarding the methodology are also presented.

3.1 Importance and context of the study

As discussed before, research on impact investing in Finland has mainly covered SIBs and the phenomenon in general. Since 2017, FVCA has conducted research in the context of private equity, which work has been continued by Kirppu (2019) and Aalto Fellows (2019). Nevertheless, based on discussions with several actors working in the field of private equity, it seems that there is a need for more thorough research. Impact investing is still a new topic in the financial world, and it has mostly been discussed from a theoretical perspective so far. Therefore, it was considered beneficial to gather first-hand data, which allows more practical analysis of the current market situation.

While the interest of private equity actors towards impact investing is considerable (FVCA, Sitra and Deloitte, 2017), it cannot be said that impact investing would have really integrated in the Finnish PE. Therefore, the topic of this study has been steered towards understanding the challenges and restrictions of impact investing in PE, as understanding the possible future development routes is another point of interest. While the fundamentals of impact investing as a whole are discussed in the literature review, empirical part of the study is solely limited to Finnish private equity markets.

3.2 Philosophical background and research design

To answer the research questions, qualitative methods are used. Since impact investing, especially in private equity, is a rather new topic, there might not be enough data available for conducting a quantitative research. As Eriksson and Kovalainen (2008) explain, it is relatively difficult to explicitly define qualitative research and there are several methodologies within the field, that significantly differ from each other. However, compared to quantitative research, qualitative methods are usually aiming at obtaining a holistic understanding of the issues studied. Therefore, by choosing a qualitative approach, more thorough analysis of the underlying motivations and root-causes can be obtained.

Research questions of the study appear to be rather positivist. Traditionally positivism has had a strong emphasis on quantitative methods and as Holliday (2007) presents, opposition of positivism can be seen as one of the main characteristics of qualitative research. Therefore, it can be argued that the main ontological tradition behind the study is postpositivism. It builds on the positivistic view, which highlights facts, observation and measuring. However, postpositivism questions the idea of single reality, and gives more value to different interpretations of the world (Eriksson and Kovalainen, 2008). Therefore, the results of the study should not be taken as definitive facts, but instead room is left for interpretation and additional research.

3.3 Methods and data collection

Data for the research was gathered by conducting 10 interviews. There were, in total, 12 informants, since two interviews included two informants. All informants are professionals working in the field on private equity. As presented before, there are two main actors in private equity investments. General partners (GPs) are essentially PE firms who seek potential companies to invest in. Limited partners (LPs) are usually institutional investors, funds or foundations, who provide the initial funding for GPs and expect return for their investment. Since both GPs and LPs have a crucial role in the development of impact investing in private equity, to better understand the barriers and possible solutions, it was considered important to collect data from both parties. Six informants were representatives of GPs, while four interviews were conducted with LP investors.

FVCA acts as a coordinator between PE firms and institutional investors in Finland. The association has a wide range of members from both GP and LP side and members are listed on FVCA's website. This list was an initial source for finding potential interviewees for the study. Since the study is qualitative and the goal is not to generalize the results in a larger population, but rather understand a phenomenon, there was more freedom in choosing the informants. Theoretical sampling is a data collection method, which enables the researcher to decide what kind of data to collect and where, do the collection and analyze data while simultaneously develop a theory (Glaser and Strauss, 1967). Theoretical sampling gives the researcher an opportunity to seek for informants that fulfill some prerequisites to ensure the most applicable data collection. This ideology was utilized in choosing the informants. To gain more reliable insights about the current issues in impact investing field, it was considered more beneficial to interview organizations who already have some experience in the field, or at least a strong interest towards it. Therefore, GPs and LPs were classified based on whether there was a mention of 1. impact investing and 2. sustainable investing, on their website. Organizations who seemed to be familiar with these concepts, or who already were implementing them into their business, were preferred as informants. To add variety to informant group, companies were also divided in groups based on their predominant investment type (VC, growth, buyout) and industry. To remind, in this study the definition of private equity includes both VC and buyout, and views from both sectors are included in the study.

Adding theoretical sampling methods in the data collection process, helps in maximizing the amount and quality of relevant data, but naturally this approach has to be taken into account in the analysis, since the chosen companies are not necessarily representing the industry standard. Limitations of the data and analysis are discussed more thoroughly in section 3.5.

To ensure as trustworthy data set as possible, it was agreed with the informants, that their names or the names of their organizations are not revealed. However, providing some information of the informants is essential for the credibility of the study. Therefore, the answers are not completely anonymous, but rather pseudonymous. Table 2 presents a summary of the interviews and informants.

Table 2: Summary of interviews

Informant	Position	Description of organization	Duration (minutes)
1	Investment Manager	Private equity firm (GP)	35
2	Partner	Private equity firm (GP)	63
3	Senior Lead	Public sector investor (LP)	70
4	CFO	Private equity firm (GP)	59
5 (remote)	Head of PE	Pension insurance company (LP)	66
6 & 7 (remote)	Director & Director	Public sector investor (LP)	61
8 (remote)	Sustainability Manager	Private equity firm (GP)	39
9 (remote)	Partner	Private equity firm (GP)	45
10 (remote)	Managing Partner	Private equity firm (GP)	52
11 & 12 (remote)	Investment Director & Director, responsible investment	Asset manager (LP)	66

One interview guide was prepared for the study and it was applied in all interviews. Interview guide can be found in the appendices of the study. Some modifications to the interview guide were made, depending on the type (GP or LP) of the organization. The interviews were semi–structured and informants were asked the same questions predominantly in the same order. However, the structure of the interview could be modified based on informants' answers, to concentrate on topics most relevant regarding a specific organization. It was considered important to gain answers to all the topics, without restricting interviewees' opportunity to bring forth themes and issues they saw most relevant. All the informants were Finnish speaking and interviews were conducted in Finnish, to ensure that language barrier is not decreasing the quality and depth of answers. Also, transcriptions of interviews were prepared in Finnish, and only the citations were translated into English.

3.4 Data analysis

The research questions are answered based on the data collected by interviews. Since the study is not quantitative, results are not to be generalized. Instead, the used method of thematic analysis tries to identify and report patterns within data (Braun and Clarke, 2006). Combining the informants' answers with the knowledge about their motivations and expectations regarding impact investing, provides an opportunity to build a general view of the current issues and possible solutions related to the field. It also gives a better understanding about most relevant research topics for the future.

Analysis process started with transcribing the interviews and organizing all the empirical data into a manageable resource package. After preparing the data for analysis, it was coded. Coding helps in understanding what the collected data actually is about, and how it should be handled. By coding, the data is labeled into categories combining related phenomena, ideas, explanations, etc. (Gibbs, 2007). Coding helps in refining the data for final analysis and makes it easier to recognize the information that is most relevant for the research. There are several possible methods for performing the coding. In this study, a method of coding for content was utilized, since it is especially suitable for analyzing data gathered by semi-structured interviews. The main idea of this method is to group the gathered data at different levels of meaning and interpretation. As Guest, MacQueen and Namey (2012) present, there are several criteria which help in recognizing the most important content, such as repetition and instances of something unusual, unexpected or interesting. These guidelines were utilized in the coding process.

After coding, data ordered by codes was gathered under themes. Braun and Clarke (2006) remind, that selecting themes may be a rather challenging task, since there is no determinate answer to what counts as a theme. A rule of thumb is, that a theme should capture something important related to the research questions. By finding similarities and differences, patterns and relationships, the data was finally formulated into findings and results. Careful analysis ensures, that all the results arise from the data and prevents utilization of partial or biased data (Gibbs, 2007). Figure 6 presents the data analysis process of this study and shows the evolution of data from initial codes to themes, and finally to aggregate dimensions, which grasp the most inportant elements of the paper. According to Gioia, Corley and Hamilton (2012) systematic and analytical discipline helps qualitative research to achieve stronger rigor, which enhaces its credibility.

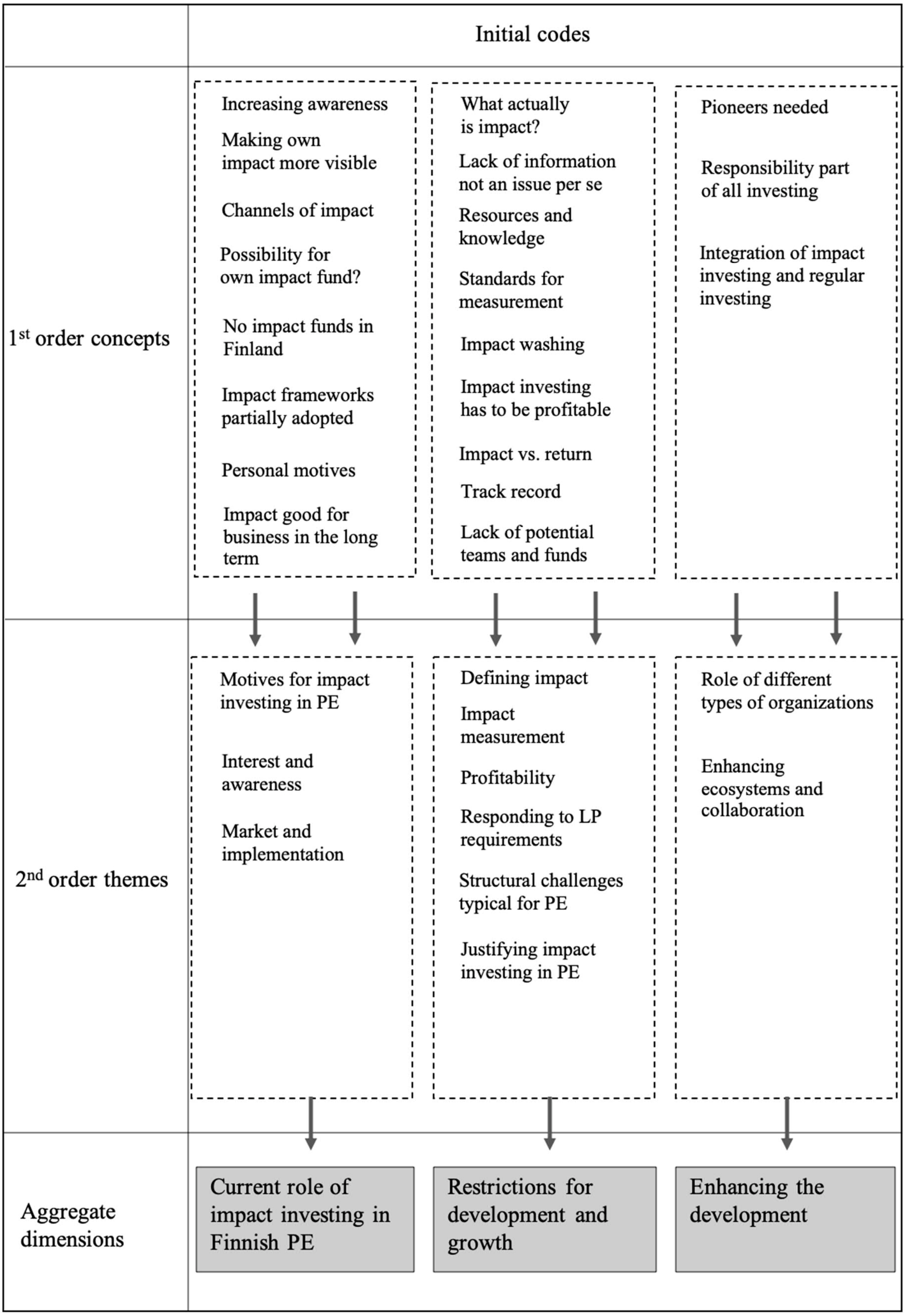

Figure 6: Gioia data structure of the analysis (adapted from Gioia, Corley and Hamilton, 2012)

3.5 Limitations

Data collection is a very significant part of a research and it shapes the results of the whole study. Therefore, limitations and challenges of data collection and its influence on the analysis have to be carefully considered. There are more than 60 PE firms in Finland (FVCA, 2020b), and they all have specific investment strategies and philosophies. Some companies are focusing on venture capital, and others on buyout. There are firms of very different size and they are geographically spread all over Finland. Also, Finnish PE firms most likely have varying relationship with impact investing. Different understanding of the concept, motivations, resources, etc. might cause challenges in terms of credibility. This emphasizes the importance of well-prepared and understandable interview questions.

The interviews were semi-structured, and it can be argued that they were not as vulnerable to misunderstandings as very structured interviews, since there was more room for clarification and continuation questions. Also, the interviews were conducted in the mother tongue of both interviewer and interviewee. Still, there is always a possibility, that the interviewer and interviewee do not completely understand each other, and they might have different expectations and interpretations for research topic and interview questions. This kind of situations are not always easy to recognize, since the interviewee might try to avoid uncomfortable situations. This is also connected to the issue of reluctant respondent. Even though respondents accept the initial interview request, they might resist talking about certain topics and avoid questions (Adler and Adler, 2001). This may not be a serious issue regarding this research, since the questions were not very personal, but due to company policies and confidentiality, some resistance could occur even though interviewees' anonymity is secured.

More comprehensive data could naturally have been collected by interviewing a higher number of PE firms and investors representing several subsectors in their field of profession. However, due to technical restrictions and time limitations, 10 was considered to be large enough number of interviews for this study. Due to the coronavirus pandemic breaking out in March 2020, restricting physical meetings, most of the interviews were conducted remotely with phone calls and telecommunication tools. While this might have some effect on the quality of the interviews, it cannot be counted as a significant limitation, since the main point of interest was the substance and data itself instead of discourse.

4 FINDINGS

The research questions of this study are:

1. Which factors are restricting the growth and development of impact investing in the Finnish private equity field?
2. How could the development of impact investing in the Finnish PE be enhanced?

As presented in chapter 3, these questions are to be discussed based on data gathered by 10 interviews with professionals working in the Finnish private equity industry. In this chapter, most important findings will be provided in a relatively objective manner, utilizing citations from informants. In chapter 5, these findings are taken into wider context, and they are also discussed in the light of previous literature and research.

4.1 Current role of impact investing in the Finnish PE

Answering the research questions requires up to date knowledge about the current state of impact investing field in Finland. Therefore, the informants were also asked broader questions about their comprehension of the concept, possible motives for increasing impact in their business as well as market development. A review of these matters is presented first, before shifting focus to most pressing challenges and possible solutions, which are the main area of interest of this study.

4.1.1 Interest and awareness

Several informants pointed out, that responsible investing and ESG investing are already an integral part of private equity in Finland, and during the recent years more focus has been pointed towards impact investing, also in the Finnish PE scene. Increasing discussion around the global sustainability challenges has been driving the development of finding new mechanisms for responsible investing. The following quotes illustrate the increasing awareness in recent years in the markets in general, as well as in private equity specifically:

> *It was a few years ago, maybe after Paris climate summit at latest. There was a tipping point, things that used to be like "it would be nice", became things that were really wanted to pursue. The stance of investors has really only a few years ago become significantly positive towards this matter (impact investing). (2)*

> *I think, that during the past year, there has been a rather significant increase in awareness in the PE field, concerning what impact investing is, and which its goals are. The interest has been vast. I think, it (awareness) is on a relatively high level currently. (7)*

One several times mentioned reason for increased awareness and interest in the Finnish PE field is the work of FVCA. The association has produced research and initiated discussion amongst different parties, with increased focus in responsibility and lately in impact investing.

Even though the concept of impact investing seems to be relatively familiar within the industry, there has been discussion, whether all investors have understood it thoroughly. Recalling the guidelines by GIIN (2019a), characteristics of impact investing are: 1. intentionality, 2. investment with return expectations, 3. range of return expectations, 4. impact measurement. While there was variation in word-to-word definitions provided by informants, almost all of them drew a clear line between responsible or ESG investing and impact investing, and most of them emphasized intentionality as a crucial feature of impact investing. However, some informants also brought into attention, that they believe there is still no common understanding about the definition of impact investing in private equity field, even if overall awareness is increasing:

> *I am currently noticing, that this impact investing is mixing up in terminology with, for instance, responsible investing. Different terms have been used. I think it is important to see the difference, that impact fund is impact fund. (4)*

> *It is the same issue in the Finnish VC and PE, as well as in the rest of Finnish investing scene and the global investing scene too. The concept of impact investing is currently so vague, that it is possibly one challenge for the development. There are lots of cases, where existing investments are rebranded as impact investing, because all investing has some kind of impact. (3)*

Especially worrying topic amongst the informants was the practice of re-establishing existing funds as impact funds, which many saw as rather common phenomenon especially considering the whole impact investing market. The occurrence of impact washing was the only thing brought up, that had lowered some informants' interest towards impact investing. Otherwise, all informants stated that their interest is growing. Impact washing is discussed more thoroughly in section 4.2.1.

Growth of interest towards impact investing is a part of larger transition in investing world, which has accelerated in recent years. For instance, PRI (Principles for Responsible Investment) was mentioned by several informants as a widely followed guideline. It was also pointed out, that impact investing is only one strategy of responsible investing and should be developed side by side with other strategies to recognize best practices:

> *If I would describe impact investing, as you know, it is only one ESG strategy. If we take a look at this entity, for the last 10 years we have developed our own ESG approach with*

> *discipline. The wide framework has been the UN principles of responsible investment – –. (12)*

On the other hand, while all informants emphasized the importance of responsible investing, and were generally pleased with the increasing trend of implementing sustainability and impact aspects into all investing, there were some doubts about the current relationship between sustainability and investing. It was mentioned, that there have been some sustainability practices, that had actually prevented investors from doing investments that might prove to be sustainable or impactful in the longer term:

> *In Sweden, there are even signs of climate hysteria, also in the business world. Sometimes it is very short-sighted. – – if we are prohibited from investing in companies, that are currently using fossil fuels, in a case where they would need capital for investing in more environmentally friendly energy production capacity. Aren't these environmental targets a bit self-harming, if helping contaminant companies to execute their plan of becoming more environmentally friendly cannot belong to our mandate? (10)*

It is arguably very difficult to assess, whether an investment in the end proves to be positive or negative concerning the whole impact it generates. This underlines the importance of considering sustainability and impact as inseparable features of investing and supports the idea of measuring net impact of investments.

4.1.2 Market and implementation

Even though the interest towards impact investing has increased significantly, the common understanding is, that there are no pure impact funds in the Finnish private equity sector. None of the interviewed GPs had founded one, and two of the LPs stated, that to their understanding no impact funds have been founded in Finland:

> *Awareness in the VC and PE field has recently increased, but we haven't had dedicated impact funds here (in Finland), which can be found in the international market. (3)*

> *In Europe and in the US especially, they are ahead when it comes to impact investing. In Finland, a pure impact investor or impact fund is lacking, for now. (7)*

This is the case most likely due to the small size of Finnish markets. While almost all informants thought Finnish PE firms and institutional investors are, in general, very aware of responsibility matters and interest towards impact investing is high on a global scale, the ecosystem of different companies and investors is simply restricted in size compared to major European countries and the US, for instance. It was also pointed out, that interestingly impact investing has originated in the United States, where ESG and responsibility aspects are not as widely adopted than in Europe. One reason could be that due to smaller role of public sector as a provider of social security, there is a longer tradition of philanthropy culture especially in Anglo-American countries and the United Kingdom. This has arguably advanced the development of different impact structures and measurement.

While impact funds have not been founded in Finland, it seems that several organizations, both GPs and LPs have been looking for possibilities to incorporate impact frameworks into their business. When asked if the organizations have made investments, which in addition to financial targets have other targets, many informants responded positively. On LP side, most commonly pursued impact has been contribution to Finnish ecosystem, in terms of new business opportunities created:

> *Traditionally, our impact targets and related indicators have been so called socio-economic indicators, by which we can see how we have, by our investments, succeeded in contributing to creating jobs, growing and internationalizing enterprises – – (7)*

On GP side, several firms have made single investments with some features of impact investing. In these cases, impact was not the key driver of the investment, but rather a positive by-product:

> *We have made some investments, which have impact, a positive impact on CO_2 emissions, but it has not been that kind of activity, that we would have made the investment decision based on this. (9)*

One informant also addressed so called "statement investments", their firm had practiced. These types of investments are made in companies, which business and purpose investors want to support, even though it does not necessarily fall into their regular investment scope. Arguably, these investments are more common in venture capital, where investees' business is at early stage. However, as the informant also pointed out, this type of activity does not fulfill the requirements of impact investing, since there have not been explicit impact targets, of which achievement could have been measured. Overall, both GPs and LPs emphasized the importance of distinguishing pure impact investing from these impact-oriented activities.

Informants were also asked, whether they are actively seeking investment opportunities, which in addition to financial return have non-financial targets. This was not the case with most informants:

> *Cannot perhaps be said that actively. Our impact currently occurs indirectly, so to say. We are, of course, closely following the development of different industries and megatrends, that are visible globally and in Finland. For instance, climate change, it is indirectly showing in our investment decisions. (8)*

> *Actively seeking is perhaps too strong expression. – – we don't have a task force, by which we are seeking impact targets. (9)*

> *Currently no, we are not actively seeking them. They are included in normal processes and they have to fulfill the same requirements. We are looking for interesting investment opportunities, but currently we are not specifically focused on impact. (3)*

One informant, however, stated that they are specifically committed to finding investment opportunities, which include other value in addition to financial returns, more precisely ways to save natural resources, through their investments. Despite of this, also this company does not fully identify as an impact investor. In general, it seems, that organizations in the Finnish private equity field are open-minded towards increasing impact of their business but are not willing or capable of adopting all the guidelines required from pure impact investors, when it comes to setting impact targets and measuring their achievement.

4.1.3 Motives for impact investing in PE

When asked which are or would be the most important drivers for increased impact, most informants emphasized the personal motives and willingness to do meaningful things for common good. Many informants brought forth their belief that global issues, such as climate change and resource scarcity, require actions from all sectors and parties, investors included. This idea of joint responsibility is also increasingly seen as a requirement for PE firms. One informant summarized the motivation for increased impact in the following way:

> *I would say, there is an emphasis on the aspect that alongside the financial value, it must be indicated or displayed what is the value creation of a company to the society and environment. (8)*

As in any investing, private equity investments are, in the end, always made based on personal decision and motives. As one informant pointed out, all business is "people's business". Employees of PE firms, pension insurance companies, asset managers, etc. essentially shift the whole industry to desired directions, by cumulating investment decisions.

In addition to personal motives and views of the world, several GPs also emphasized the importance of pressure coming from their investors as a motive. As requirements for non-financial impact grow from LP side, GPs will have to adapt to them. Arguably many of these requirements have again been formulated based on personal motivations on LP stage. Interesting aspect is, how these motives and beliefs transform into actions and investment decisions on an institutional level. At least one interviewed GP had experience about situations, where a single representative of an LP had a very positive attitude towards a proposed investing opportunity, but the investment was rejected at the later stages of the institution's processes.

Related to both GPs' own willingness to tackle environmental and societal challenges, as well as the external pressure, is the consideration of the longevity of PE firms' business. While requirements for responsibility matters are increasing, and legislation is shifting business into new directions, GPs have to be able to adapt to the changing operational environment to ensure their success also in the future. This aspect is enlightened by the following quote:

> *I would say, it is ensuring that we are in this business still in 10 years or 20 years, it is the most important motive – –. – – so that you can do business, you have to more and more take the questions also around the business into consideration. (1)*

Adopting the impact aspect more efficiently into the business could be a way for GPs to differentiate and create new business for themselves. This also holds for LPs, even if possibly in the longer time period:

> *From the companies' point of view, do you want to be a part of the winning company, which will also be a winner in the future. Do you want to be an investor that supports winning companies, or do you want to support companies on fading industries with your investments? There is a need for it (impact investing) in the future. (6)*

Due to these motives informants were, in general, very positive about the development and increase of impact investing also in PE sector in the future. Sharing responsibility for tackling environmental and societal challenges, as well ensuring thriving business also in the future, seem to require more thorough adoption of responsible investing principles as well as impact aspect. However, it does not necessarily mean, that GPs and LPs would officially become impact investors. This will be discussed more thoroughly in section 4.2.7.

4.2 Restrictions for development and growth

This section presents the main findings regarding the current challenges PE firms and investors are facing, that are restricting their ability or willingness to perform impact investing. Results of this section provide answers to the research question 1.

4.2.1 Defining impact

Even though the principles of impact investing were familiar to most informants, and they wanted to keep impact investing separated from responsible investing guidelines, there are some foundational challenges in defining what impact investing is in practice. As has been presented before, all investing has impact. Private equity generates tax income, creates jobs and helps to develop new companies, which in turn have impact of their own. The meaning of impact is easy to understand per se, but when evaluating their own impact performance and possibilities for increasing impact, most companies seem to struggle.

One possible way to perceive a company's impact, mentioned by several informants, is examining its net impact, which is essentially the difference between the positive and negative societal impact a company achieves. Net impact is considered a useful way of thinking, since it helps in gathering many types of impact, be it social, environmental or economical under the same umbrella. However, this also results in discussion about personal values concerning most desirable impact, as the following quote presents:

> *– – the problem is that impact is a very complex matter and I am not sure if it is possible to completely standardize it. It will become a discussion of values quite fast. We can measure CO_2 emissions, but simultaneously we might improve or weaken some social aspect. Is it acceptable to use child labor to decrease CO_2 emissions, or vice versa, can we produce CO_2 emissions to decrease the use of child labor? These are questions that will most likely prove rather difficult. (3)*

During the interviews, it was not discussed very thoroughly, whether PE firms or investors think that defining impact is especially challenging in private equity compared to other asset classes. As presented in section 4.3.1, impact in PE can occur via two channels, by choosing the portfolio companies and actively managing them. This might set its own difficulties in defining to which degree impact achieved by a portfolio company can be allocated to PE firm. Correspondingly, what would be the computational and factual impact of an LP who invests in several private equity funds? There were some evidence supporting the occurrence of this kind of challenges in the PE field:

> *Especially, when we are considering unlisted companies, we might know the company's product, but none of us knows, what the impact will be eventually, and what the multiplicative effects are. Will it have impact in the big picture. (1)*

Arguably, defining impact and setting up impact targets is especially difficult in VC investing, since the portfolio companies are at very early phase of development.

Difficulties in defining impact has led to a problem of impact washing, which occurs when investors are falsely, or with too vague knowledge, branding their investments as impact investing. Due to increasing interest towards impact investing in the recent years, impact washing has become a noticeable phenomenon also in the private equity field. Many informants, both GPs and LPs, named the occurrence of impact washing schemes as the most important factor lowering their own interest in impact investing. Impact washing was considered as a serious threat for the development of impact investing as a whole. The issue was described in the following way:

> *There have been these (impact washing) schemes as well, and one challenge is precisely, how this can be made to appear as a rational, justifiable activity to the investors, in contrast for it only being a buzzword. It is very important, and then again increasing the understanding, someone bringing forth the best practices, then we can avoid the situation where this, in its entirety, gets a label of impact washing. (6)*

> *The only fear I have is, that if this impact washing continues, this will fail because then everything will have impact or is impact investing, and it will lose its meaning, in a sense. That is why it would be very important to really hold on to the definition and decide what is impact investing and what is not. (3)*

Even if impact washing itself is a challenge, it can be seen as a part of the broader problem of defining impact. One informant stated, that impact washing most likely often occurs unintentionally, when there is lacking knowledge about impact and its implications. The informant emphasized, that it is also a responsibility of investors, in this case LPs, to distinguish real impact instruments from impact washing.

Some informants, both GPs and LPs, stated that they have prepared annual impact reports based on their performance. Sustainability reporting, mostly concentrating on describing and addressing social and environmental threats, is rather common in every industry today. Presumably, in near future there will also be increase in reporting the positive impact on the company level. Even though this may help investors and other stakeholders to better evaluate the overall responsibility of a company, there are two threats, closely related to each other, in this path.

First is related to impact washing. A company (in this case, a PE firm or investor) is by all means allowed to communicate its impact to the public. However, as have been discussed several times before, to be counted as impact investor, the company also has to have impact targets on place, so that it can critically evaluate if they have been achieved. Otherwise, any company can declare itself as impact investor, which is in a way an ultimate example of impact washing. The second issue is related to earlier mentioned problem of valuing different kinds of impact. If every investor chooses its own impact targets and indicators, how can they be compared to each other? This issue can most likely not be completely solved and there will always be conflicts and trade-offs when it comes to comparing and communicating impact.

4.2.2 Impact measurement

A challenge closely related to defining impact, is impact measurement. As presented in section 2.1.2, impact measurement has traditionally been considered as one of the main issues impact investors are facing. Interviews support this observation, as virtually all informants, regardless of their organization's type, size or experience in impact investing, mentioned impact measurement as one of the most pressing issues. One informant, representing an LP presented this challenge in the following way:

> *In the big picture, it could be stated that measuring is the greatest challenge for impact investing. Without this challenge, we would most likely have advanced much further. (7)*

To generalize, private equity investors are in a need of impact measurement tools that are suitable for their business. GPs don't necessarily have time or resources to build their own impact models. Also, they might not have enough expertise in the field, which issue is illustrated by the following quotes:

> *We might not have the best opportunities to quantitatively examine all the aspects and build our own models. We can efficiently use existing models and make analyses based on them. We cannot necessarily lead the development, but on the other hand, I think it is not a responsibility of a firm like us. (1)*

> *We have not built that kind of competence yet. We are professional in investing, of course, but we do not have tools for the measurement and evaluation of impact. Most likely it would require, that we strengthened up our team. (9)*

While some impact dimensions concerning especially environmental sustainability, such as CO_2 emissions reduction, are relatively simple to measure, many other types of impact, especially on social side, have been considered significantly more difficult. Since there are countless of possible impact targets a company can pursue, it is difficult to compare them and therefore communicate the possibly achieved impact. An aspect that was brought forth by almost all informants, is the possible need for standardized impact guidelines or tools. Standards might help GPs to scan their possible portfolio companies based on impact, but also help LPs and the audience to compare different firms and funds. One informant described the challenge of impact measurement and possible need for standards in the following way:

> *At the moment, I think the problem is we do not necessarily have one single method, firm, format or indicator, we could use… Also, in our own portfolio, if we wanted to state that this is so and so responsible, how would we measure it. (4)*

However, while impact standards have been recognized as a possible way to ease impact measuring and thus impact investing as a whole, several informants pointed out, that in many cases impact might be too complicated to standardize. It is noteworthy, that many informants simultaneously desire better standards for measuring, while also admitting that it might not be possible to standardize all impact. Therefore, the measuring tools should simultaneously be universal enough to suit a wide range of different companies and allow adjustability for measuring different forms of impact. Obviously, it is very challenging to create such methodologies. The complexity of impact, in terms of creating standardized measurement methods, is enlightened by the following quote:

> *Maybe the challenge from many investors' point of view is, that on which portfolio level can you measure a single type of impact. If you have a portfolio with very different types of businesses, and all of them have their own, essential impact indicator or indicators. They cannot necessarily generate an aggregated picture – –. – – there is no, and most likely there will not be, an equivalent impact target for all firms, which makes it a rather complex entity. (6)*

The shortcomings of current impact measuring methods also reflect GP informants' perception of the impact requirements of their funds. While universal models of impact defining and measurement would help them in aligning their funds' targets with impact requirements, very strict top-down requirements from LP side could complicate GPs work significantly. The following quotes clarify this contradiction:

> *We have had a chance to start doing it (sustainability/impact reporting) form our own starting point and we have developed it as we see the most reasonable and functional, which I claim, shifts it to better and more reasonable direction compared to situation where someone just suddenly gave us a template and told us to report based on it. (4)*

> *On the other hand, if there were clear expectations and requirements, it would help in recognizing what the expectations for us are. If they are on very wide level, it requires more interpretation and understanding from us, how to respond to these requirements. (8)*

Upright Project was the impact measurement tool most often mentioned during the interviews and some organizations had used it to evaluate the impact performance of their portfolio companies to some degree. Upright Project was considered an interesting tool for its attempt to compare firms' net impact:

> *– – a good thing about Upright is, that they measure a lot of things in addition to CO_2. It is quite pervasive, you create new jobs, you create additional value and so on. It is nice, that they understand nothing is only good or bad, when measuring net impact. It is a very interesting methodology in that sense. (10)*

However, only one informant explicitly stated, that their organization has set impact targets on some of their investments, and that they are measuring the realization of these targets. Interestingly, in a survey conducted by Aalto Fellows (2019), 42% of respondents, representing Finnish PE firms, stated that they set impact targets to some or all of their investments and 55 % were using existing impact investing frameworks to model the impact of their portfolio companies. This result is in a contrast with findings of this study, even though the study is not quantitative, and the results should not be generalized into whole population. On the other hand, findings of this study support the impression, that also PE firms which are not managing actual impact funds, are still interested in measuring and tracking their impact.

Upright Project is an example of an external service for measuring impact, which most of the informants seem to be looking for, since it, to some degree, allows a) measuring the impact and b) comparing companies based on their impact performance. In addition to measuring impact, several informants emphasized the importance of comparing different companies and products to distinguish the ones with best return and impact opportunities. While there is a wide range of impact-oriented products, it is very difficult to unpack their performance. This finding is supported by the following quotes:

> *Comparison is lacking at the moment. It seems there is everything else, new (investment) products are created and they are telling what impact investing is. But a direct comparison, how a product differs from other products, that would be important. (1)*
>
> *It is probably too much to ask, that every investor in the world would start to think and understand themselves, that if I invest in here, it could be a very good thing for the world. Someone would have to do the work before. If the absolute measurement is difficult, maybe there is a need for some kind of lists or impact indexes. And how you could get involved in the index, maybe there could be some kind of qualitative process. You should convince an authority organization, that you really belong to this impact-index. (2)*

4.2.3 Profitability

As discussed in section 2.1.3, there is an ongoing discussion about possible conflicts between profits and impact in investing. Based on the interviews, the common understanding amongst GPs' seems to be, that impact and return can support each other. The following quotes illuminate this finding:

> *Currently, the expectation seems to be, that these (impact and return potential) will not be in contradiction to each other, as has been claimed for long. On the contrary. If you are able to be successful in terms of impact, it will also lead to increase in money flow from consumers' side. (4)*
>
> *I don't believe that anyone would invest in something that is not simultaneously a great financial opportunity. They are strengthening each other, the possible impact and financial return. And there is no need for making compromises. (2)*

Naturally, the spectrum and targets of impact investing vary greatly. There is an unlimited amount of possible impact investing opportunities with different impact-return relationships and it cannot be said that impact always comes with increased returns. Rather the bottom line could be, that increasing impact does not necessarily decrease returns.

Informants representing LPs were more critical towards to idea of simultaneously increasing impact and return. It seems, that traditionally the fear of losing profits has been the main reason preventing LPs from investing in impact funds. No one stated, that it is impossible to achieve positive returns and impact at same time, but there is an understanding, that sooner or later some tradeoffs have to be made. One LP informant described this in the following way:

> *I have also spoken about finding investment opportunities where impact and financial return go hand in hand. They can go hand in hand until a certain point, but there will always be the question about which one should be optimized. They will never go hand in hand all the way. (3)*

Recalling the definition of impact investing: "Impact investments are investments made with the intention to generate positive, measurable social and environmental impact alongside a financial return." Since impact investors aim at achieving both financial and non-financial return simultaneously, these two dimensions should not necessarily be separated from each other. Impact should be integrated into the investment in a way, that ensures increased impact by increased scale in business and profits. Otherwise it seems to be very challenging for LP investors to commit to private equity funds, which are using impact as the reasoning for their investments.

4.2.4 LP requirements

While all informants representing LPs have ESG policies on place and they demonstrated increasing interest towards impact aspects of their investments, they emphasized that they are market-oriented. It means, that they are not accepting lower returns based on impact factors. Some of the most frequently mentioned aspects they take into account when making investment decisions are:

- Solid and consistent investment strategy
- Track record of the team and PE firm
- Commercial terms of the investment agreement
- ESG factors as a part of regular processes (negative screening especially)

All these factors affect the required return, which in the end defines whether the investment seems eligible for the LP. Throughout the interviews it was pointed out, that impact as an investment strategy is not suitable for large investors, who may even have legislative obligations for generating returns, as pension insurance companies, for instance, have. Several LPs considered the quality, especially in terms of investment strategy and return expectations, as the most important restriction for investing in impact funds so far. Even though investors would support the rationale of a specific investment per se, if the return opportunities are not high enough, it cannot be compensated with possible impact. Several LPs also mentioned, that often impact investors appear as very mission-driven, which does not convince market-oriented investors. These challenges were described in the following way:

> *Probably the most pressing challenge has been the quality. Quality of investment opportunities has not been good enough to fulfill our investment criteria, in comparison with other investment opportunities we have found. (3)*
>
> *– – another thing is probably, that team initiatives have not been of very good quality. That we could find persons, who have experience and understanding of impact measurement combined with investing. (6)*
>
> *I have to say, it is the target alignment of the funds themselves. In the sense, that these, how would I say, charitable targets have been really difficult for us. (11)*

Since all the interviewed LPs are market-oriented and cannot make investments based on impact performance, GPs practicing impact investing should be able to prove their ability to generate market-rate or market beating returns. Here the challenge is, that LPs usually prefer GPs with an experienced team and long history of managing certain types of funds. Additionally, a considerably strong track record is required. Since impact investing is a new phenomenon, there are currently no teams in the Finnish impact investing field with a history and track record fulfilling institutional investors' requirements. The following quotes illustrate the challenge from the LP point of view.

> *If we talk about impact investing only in the context of private equity, there is always the challenge, that every fundraising is dependent on the previous performance. No one can make a 180 degree turn in what they are marketing to investors. (6)*
>
> *In Finland, we have institutional investors, pension companies and so on, but they have not had a readiness to take excess risk. They have certain requirements, that their operations have to be profitable, so they do not have a possibility to take the risk and try these impact products, if they cannot confirm they have sufficient track record. (3)*
>
> *The biggest challenges are, as I described in the beginning, that the managers who are selling and marketing these funds, they don't have historical track record, based on which I could be convinced that they are able to invest my money in the future. That is the most significant challenge. (5)*

However, several LP informants stated, that there are signs of a new wave of impact investors in the global markets, who have focused on building the impact as an integrated part of their investment strategies, while also meeting the other common requirements in terms of size and track record, for instance. Trill Impact was the one that had especially attracted informants' attention. While there was no experience in investing in these types of emerging funds yet, many LPs seem to be following their development with great interest:

> *– – we are witnessing the emergence of funds and fund policies with novel definitions, in which the basic profitability factors of investing have been combined with impact. We are waiting, with great interest, the increase of supply. At the moment there are a few cases that would without doubt pass our processes or could be considered. (11)*

By combining the experience in investing and impact with an impressive track record, these managers and firms could help in legitimization process of impact investing. The role of this type of funds in developing the market is discussed in section 4.3.1.

4.2.5 Structural challenges typical for PE

Characteristics of private equity were described in section 2.2.1. Some structures of typical private equity investments have been considered challenging for impact investing already in previous studies, and results of this study confirm many of them. Due to limited market size, Finnish PE firms are typically rather small in terms of number of managed funds as well as total assets under management. Since the role of large, institutional investors as LPs is crucial in the Finnish private equity market, it is difficult to raise an impact fund that would be attractive to them in terms of size and thus returns. Funds that do not fit LPs' strategies because of the small size would therefore only be applicable if investors are strongly prioritizing impact end ethical aspects over return:

> *They are small funds. This is a very small part of the market, it is just a fraction of VC market, for instance. I would say, it is a very difficult task, if you are not making investments for solely ethical reasons. (5)*

Another challenge frequently mentioned is the long lifecycles of private equity funds, which often reach 10 years and beyond. This means, that a single PE firm does not raise a new fund very often. Concerning the requirements from LPs, it seems that for a PE firm who previously has not founded impact funds, it is not a very tempting option to formulate a new fund as a pure impact fund. Also, reforming or guiding an existing fund towards impact fund after establishment, would be questionable in terms of impact washing issues, even if new investments would follow the rules of impact investing. In most cases, this kind of activity would not even be possible, since the form and bylaws of the fund are agreed with LPs at the founding phase and cannot be unilaterally changed afterwards. These issues with long lifespans and commitment to fund structure were described by GPs in the following way:

> *Frames are always defined as a fund is established and investment agreement is created with partners, and in practice they will not change during the lifespan of the fund. (4)*

> *It has to be considered, that new funds are raised quite infrequently, there can easily be a cycle of 5–7 years. As a fund is raised, certain terms of agreement are confirmed, about which are the principles regarding the investments, and there really cannot be changes after that. (8)*

The illiquid nature of private equity market is also considered a challenge in terms of impact investing. When building a fund, there is only a limited number of companies for sale, and the supply does not necessarily comply with PE firms' strategies. Also, the number of transactions in private equity market is lower than in stock market, for instance, and all investment decisions have to be considered carefully since they define the operations of the firm for several years to come. These challenges concerning the illiquid nature of private equity investing were described in the following way:

> *Maybe in the public market, such as stock market, it might be easier, since compared to this private equity or alternatives market, there is more liquid stuff there. You can buy and sell faster and more easily. And you have much larger dataset available, since these allocation decisions are made almost on a daily basis. (10)*

These issues along with the LP requirements described in previous section, currently makes it very difficult for investors to invest in impact funds, which in turn does not encourage GPs in establishing them. Several informants proposed, that increasing role of family offices and foundations as investors could increase the money flow into impact funds, since they are necessarily not as severely influenced by those challenges. This aspect is discussed in section 4.3.2.

4.2.6 Demand vs. supply

One of the goals of the interviews was to investigate, whether actors in the private equity field think there is currently a gap between demand and supply in the impact investing market. In practice, this would mean either that GPs were eager to raise impact funds but could not get funding, or that there were potential money flows from LP side, but not enough impact funds to allocate them to. This question proved to be rather difficult for most informants to answer, since many felt that they do not have comprehensive enough understanding of the market as a whole. This is understandable, minding that none of the informants considered themselves as an impact investor, and a pure impact fund is yet to be established in the Finnish private equity market. Therefore, the market seems to be in too early stage for obtaining a complete answer to this question. Instead of a gap between demand and supply, it seems that there is lack of both. This finding is supported by the following quote:

> *We do not necessarily have the current pulse on how much investors would like to do impact investments. And on the other hand, as said, supply in the private equity field precisely has not been the strongest. There might be both demand and supply side issue there. As said, there are still quite many challenges to be solved. (6)*

Still, based on some informants' view, some kind of gap between demand and supply might exist. There seems to be increasing number of GPs, who would be interested in building an impact fund, but so far there has not been success in formulating a fund, that would have fulfilled LP requirements. As presented before, requirements from LP side are in general the same, regardless of the possible impact factors. One informant described this instability between demand and supply in the following way:

> *– – there are more of those, who might be willing to build one (impact fund), but the issue in supply side is, that are there teams LPs believe in, who are not daydreamers, so to say. (9)*

Arguably, lack of demand and supply is not a restriction or challenge per se, but rather a consequence of the issues presented in sections 4.2.1.–4.2.5.

4.2.7 Justifying impact investing in PE

As mentioned earlier, several informants emphasized that impact investing is only one strategy of responsible investing. While responsibility as a whole is considered to be in the core of all investing in the future, there was some skepticism amongst the informants about the role of impact investing, as it is currently defined, in mainstream private equity investing. There are PE firms, who state that sustainable development is already a very integral part of their business, and they are explicitly looking for investment opportunities which have potential of saving natural resources, reducing CO_2 emissions, etc. Still, they might not be impact investors according to the widely accepted criteria of GIIN. Also, on the LP side, investors follow several responsibility strategies, from negative screening to thematic investing and it might not be beneficial in terms of returns or impact to artificially, without thorough consideration, start practicing impact investing in its pure form. While all informants stated that impact investing should be developed further to recognize best practices, it should happen in alignment with other sustainability strategies.

Also, even if all informants think that impact aspects of investing should be developed and possibly increased, there were some doubt about suitability of impact investing for private equity. Especially, there was a common understanding that forcing GPs to use impact strategies will most likely not result in a desirable outcome. Also, some informants pointed out, that the compensation models linked to impact performance, have not proven very successful so far, even if they in theory could help in achieving impact targets. This argument is also supported by Kirppu (2019), whose study indicates that compensation models might decrease the financial performance of investments. When impact funds are competing with regular private equity funds for investors' money, but have stricter responsibilities considering impact measurement and reporting, founding impact funds and investing in them may not be a tempting option. The following quote enlightens this aspect:

> *In the same (companies) they are investing in, there might be a regular VC fund as another investor. There is no difference actually. So, the question is, since they have to do the measuring and reporting, it will result in additional costs. Does the impact monitoring actually bring anything… Since the same impact is generated by the regular fund as well, once the company enters the market. (3)*

Therefore, it seems that impact investing in private equity (as in any other asset class) might only be beneficial, when it helps allocating money in companies and projects, that would not otherwise get the funding. This again leads to the discussion about the fear of decreasing returns and/or increasing risks. The bottom line could be, that pursuing positive impact by investing will grow significantly in the future, but it does not necessarily happen by raising explicit impact funds.

Based on the interviews, a rather common prediction is, that impact in various forms will integrate into regular processes also in private equity, and in the future impact investing might not be a separate investing approach anymore. The following several quotes illustrate this idea:

> *Whether it is called impact investing, is a different question. What we are currently calling impact investing, the criteria will become a part of the basic investment analysis. (1)*
>
> *It is probably becoming one natural part of all private equity investing. (2)*
>
> *Most likely it (impact investing) is growing. There is the question, how it is defined in the end, and do actually most private equity investments in the future pursue positive impact on different sectors of society. (10)*
>
> *It has a large role as a part of normal strategies. Not necessarily as own funds, but integrated to these operational models, private equity investors use in value creation. I could imagine, it is very significant. (5)*

However, many informants also believe, that while impact aspects and traditional investing will converge, there is room for many types and levels of impact investors. Some might concentrate more on implementing impact guidelines into their existing business models, while others would be more radical in their goals of pursuing maximal impact. In any case, development of impact investing does not occur without significant inputs of time and resources, as well as rethinking the operational methods of many types of organizations.

4.3 Enhancing the development

Previous section presented the main restrictions for growth and development of impact investing in Finnish private equity field. In this section, focus is shifted towards possible actions that could help in enhancing GPs' ability to implement impact strategies in their business and LPs' willingness to invest in impact funds. As discussed in section 2.1.5, a vibrant impact investing ecosystem requires several actors and collaboration between them. Additionally, during the interviews, the role of different organizations was recognized. Therefore, this section is divided in subsections that present the main findings concerning the role of PE firms, investors, public sector and entrepreneurs in the development of impact investing. Finally, the role of collaboration between different organizations, as well as the role of impact investing ecosystem as a whole are discussed. This section provides information for answering the research question 2.

4.3.1 PE firms

GPs are recognizing their own role in developing and shifting the market towards more responsible and impactful direction, in addition to finding most potential companies in terms of future growth and optimal exit opportunities. When asked, which actors are influencing the development of impact investing in private equity, most GPs stated that they are most likely in the front row themselves. GPs have been able to implement responsible investing guidelines into their business, and most informants stated that responsibility aspects are nowadays considered as a part of every investment. They also have a responsibility for implementing sustainable investing strategies into their business in a transparent way, to avoid allegations of impact washing, for instance:

> *Probably it is us, who are doing this work. On the entrepreneurial level, we most likely have the best chances to influence, and if we are able to make progress, the investments will grow on this side. But if we mess up, we can cause a vast mistrust for a long period of time. Everyone will remember the failure. (2)*

While GPs, in general, have to comply with the requirements of LPs, they also have an opportunity to accelerate the progress of impact investing by actively increasing their knowledge and maintaining the ongoing discussion around impact investing. Many GPs stated, that they have been active in ESG involvement, and tried to enhance the development of sustainability matters even without pressure from LPs. This attitude could also be applied to impact investing increasingly.

In general, impact investing could be increased by two different routes. PE firms currently operating in the market could implement impact strategies into their business, or new firms could enter the market with impact funds. Informants could name some cases in Finland, where a new firm introduced an impact-oriented fund (even if they did not necessarily market themselves as impact funds), but these efforts have faced vast challenges in fundraising due to small size and lacking track record. There have also been cases where a fund, originally presented as an impact fund, has been downgraded to a regular private equity fund, due to requirements from LP side. Still, it was pointed out by some informants, that just like VC investing did during its development phase in the past, impact investing needs pioneers, who are willing to try and fail several times before possibly coming up with a working solution:

> *But before it happens in the US and other countries, someone has to do the pioneer work in terms of impact. It is the positive development of the industry and ability to define what it means, what has to be done, and indicate the results and evidence, so that the other actors in the field as well as investors will also join. (10)*

A second route for increasing impact investing would be through existing PE firms and experienced managers. While none of the informants' organizations had founded impact funds, some of them had considered whether they should have one. One informant reflected, that it might be an option for a PE firm to simultaneously found an impact fund and a more traditional one. This might help in distinguishing impact investing as an own strategy. On the other hand, it could also increase the firm's legitimacy in the eyes of LPs, since the GP would not appear only as a mission driven impact investor. One informant stated, that while they currently do not have resources or willingness to take a risk of founding an impact fund, they might be interested in managing one:

> *If I think purely from our company's point of view, we would be interested in managing an impact fund. But I don't believe, that we would take the risk as a small, independent actor, of start raising such fund from private investors, since it is difficult enough to raise a regular fund. (9)*

In practice this could mean that a public sector investor, for instance, founded or financed an impact fund and recruited professionals in the field of private equity and impact measurement to manage the fund. While this type of structures has presumably not been established, at least in Finland, it might be an interesting subject for further research.

As briefly discussed earlier, several informants were aware of the emerging new wave of impact investors, who are attempting to incorporate impact into the core of their business, without sacrificing their legitimacy in the eyes of large, institutional investors. The most frequently mentioned example of this type of funds, was Trill Impact, which is currently under construction. The fund is founded by Jan Ståhlberg, a former partner of EQT, a global investment organization specialized in private equity. (Trill Impact, 2020; EQT, 2020). As several informants stated, these firms would most likely meet LP requirements in terms of investment strategy, track record and size. With the increased legitimacy and track record provided by experienced managers, these firms might help in the process of familiarizing LPs with impact investing. It is obviously too early to evaluate the success and actual impact of these firms, but it seems they might be in a crucial role in mainstreaming impact investing in private equity. While they may have the resources for developing own impact methodologies and hire professionals from both private equity sector and impact assessment, some of the underlying challenges related to impact definition and measurement might remain.

4.3.2 Investors

Currently, the Finnish private equity investments are to a large degree financed by Finnish institutional investors, such as pension companies and other large companies. For the reasons presented in sections 4.2.4. and 4.2.5, it is difficult for them to financially commit to impact funds. Therefore, so far LPs have mainly focused on ESG framework and negative screening, which arguably can lead to indirect impact, as one informant stated:

> *– – this indirect impact is probably what we do in practice. We require, that the management companies of our target funds have defined these operations. We require a certain reporting concerning these topics and we require they are on some level included in the agreement documentation of the fund. And if we detect, in their reporting or otherwise in media, that some things are not aligned with all the best practices, we aim to use all possible forums and tools for intervening and fixing the situation. (11)*

While institutional investors might not be able to be pioneers in impact investing and are not requiring impact funds from GPs, they are widely considered as responsible investors, which currently emphasize ESG factors in their investments. They are closely following the development of the field and will be able to move large money flows, when impact funds are meeting their requirements. For this to happen, there must be an increase of large-scale funds and teams with a strong track record and cutting-edge knowledge in impact modelling and measurement. Currently there is, however, a chicken-egg problem: LPs are not investing in impact funds before the funds meet their requirements and GPs are not raising impact funds due these LP requirements.

While institutional investors usually have strict qualifications for funds, often formed by legislation, they might be able to allocate minor money flows to more unconventional targets. In the end, some LP informants stated, that they have previously invested in funds that are supporting the development of Finnish companies and ecosystems, even though the investment did not represent their typical targets. Therefore, it might also be possible for institutional investors to drive the development of impact investing marketplace by investing in impact funds with reasonable return expectation, even if it was small in size and would not make a difference in the large scale. In any case, most GPs seem to think that LPs have a crucial role as enablers of impact investing in private equity:

> *Investors could advance it. If they took it seriously, they could make massive changes to this world. Investors have a huge power. Those who are sitting on large amounts of capital, if they really decided, that now we want this and this impact for this money, it would be… And that is where we are actually heading currently. (2)*

> *If clear expectations came from the LP side, it would considerably affect our business. I think, it is probably one thing, how LPs could speed up this development. Their role is significant. (8)*

For this study, four LPs were interviewed. Two of them are institutional investors and two are public sector organizations. All of them emphasized that they are operating in market-oriented environment. Therefore, they all are facing the challenge of finding suitable impact funds with experienced team and strong track record. In addition to these institutional investors, there are also other types of organizations practicing private equity investments, most notably family offices and foundations. These organizations are often founded to precisely pursue social and environmental targets, that would suit the impact investing scene. Foundations and family offices invest to fund their operations, but presumably they do not have as strict requirements for financial return as institutional investors do. Even though impact and returns might not rule each other out, it is difficult recognize the best opportunities for combined impact and return, and an attempt of pursuing them both simultaneously requires taking risk. Therefore, foundations and family offices with some environmental or social targets could be interested in being pioneers in impact investing, if they could justify the possible lower returns by achieving impact that suit their purpose.

In practice, however, many foundations have separated their investment activities from their other operations. The following quote clarifies this finding:

> *One thing that might help, not investing, but formation of funds, is that charitable foundations somehow... – – they usually have investment activities, which create return. Then they give the money to the operational side, which allocates it as grants and practice some other activities. And these two sides are practically separated by the Chinese Wall. The investment people have a fiduciary duty, and they have to invest profitably and securely. But if there would be understanding, that by using the investing assets not only for profits by also to executing the operational mission the foundation has, there could be a chance to set up these first-loss structures and there would overall be opportunity to invest in slightly lower returning companies, which are actually advancing something meaningful. (3)*

At the building phase of impact investing ecosystem, it seems that family offices and foundations could advance the development of the industry by "deconstructing the wall" between their investments and other operations and embrace impact aspects more in their investing decisions. There was some support amongst the informants towards the probability of this kind of development in the future, as the following quote indicates:

> *Maybe it is more about the fear of losing profits. If we talk about pension funds, for instance, they have legislative obligations. I think, that for family-office type of investors this will become more interesting over time. (9)*

Even if foundations and family offices could boost the development at the early stages of market construction, there are still challenges in taking impact investing to a level where it appears as a tempting opportunity for institutional investors as well. If an impact fund does not fulfill institutional investors' requirements, just the commitment of a family office or foundation to the fund is most likely not enough of a reference for the institution to invest itself.

4.3.3 Public sector

Role of public sector in developing impact investing was recognized by all informants. Some informants brought forth the influence of regulation, especially on EU level, which might shift the responsibility focus in private equity towards more impact-oriented path. While this was considered overall a desirable development, it will most likely also cause challenges for GPs and LPs alike, in terms of increased resource needs for reporting and other activities.

Role of public sector organizations as financiers divided informants' opinions to some extent. While there are market-oriented public sector organizations, that could potentially also invest in impact funds, it was also considered whether public investors could invest with lower return expectations to help in mainstreaming impact investing. One informant pointed out, that venture capital as an industry would not have flourished without public support in the early stages. Therefore, public sector could help impact investing to grow, by channeling money to the market even with lower return expectations. This finding is supported by the following quote:

> *There is a need for a pioneer. I don't know, if it is an area, where public sector could operate, Vake for instance. – – also, because Tesi is so clearly market-oriented, that if they have doubts whether this generates high enough profits, Vake which also has an assignment of "saving the world", could be interesting. (9)*

This kind of public sector investor would, for its part, answer to the challenges caused by institutional investors' and market-oriented actors' inability to invest in impact funds. The public interference should be seen as an initial way to boost the supply of impact funds by increased demand and attract private money to the markets.

Another informant, while not stating that public sector investors should not invest in impact funds, remarked that internationally there have been first loss structures in place, by which public organizations commit to bear the initial risk of a fund to make it more attractive for other investors. The informant was skeptical about the success and need for this type on structures. One informant presented, that public sector could also help boosting impact investing by public procurements. Arguably this type of activity has been practiced by social impact bonds, which might be the more suitable method compared to private equity.

Overall, public sector can support the development of impact investing by several actions. In the long term, it seems that regulation is considered the most effective and reasonable method for shifting the markets. This does not only include specific legislation concerning impact investing, but the whole financial system, which currently channels money to destinations that should not necessarily be financed, when taking externalities into account. This restricts the financial profitability of some very impactful investments. By the influence of regulation, financial markets could adapt to the situation, and investments that are currently called impact investments, could actually become the most rational also financially. The following quote clarifies the idea:

> *Public sector should implement a carbon tax or some other solution, by which the markets would allocate the production through demand, and if there is a change in demand, investors' money will move into investments with the best returns. In a way, the change is not initiated by investors, but it should come from the demand side, which can be affected by regulation. (3)*

4.3.4 Entrepreneurs

While most of the money in private equity field goes to buyout funds and therefore aim to develop already established businesses, venture capital is also a significant part of the industry. Several informants believe, that impact investing will have a more major role in VC, before possibly spreading to growth and buyout.

> *I see it in the way that especially on venture side, it will be integrated faster, since there are many of these disruptive firms and others, who are transforming industries. Who are trying to change the world, solve the problems of the world. There it will certainly integrate much faster. Then the case with growth and buyout side, it remains to be seen. There the time perspectives are typically quite different. (6)*

The word 'disruption' was mentioned several times during the interviews, to describe a situation, where innovative companies come up with solutions, that completely shifts the market to a new direction. Even if VC could be an initial way for implementing impact investing into private equity, it will take several attempts and failures before entrepreneurs and PE firms are able to combine return and impact factors in an optimal way and only very few companies will survive to enter the market. Therefore, it will take a long time before the possible impact is visible. These challenges are illustrated by the following quotes.

> *Especially when talking about venture side, who knows what the returns will be and what the risks are. They are always very… Not subjective, we aim to do analysis, but regardless there are so many uncertainty factors, that cannot be evaluated. Venture investing is more art than science. (9)*

> *But I do believe, that if there are these very capable entrepreneurs, who have that willingness to make the world a better place and also want to make it transparent by starting to measure the impact, it can make a difference. Although, it is good to remember in the venture business, the actual impact may possibly be generated at some point in the far future after the investor has already made exit, if the technology and solutions breaks through and disrupts the market. (3)*

Due to these challenges, while VC investing arguably suits the nature of impact investing better, buyout funds could actually result in larger impact in the short run. If a buyout fund buys an established business and reorganizes it, the possible impact could be visible considerably sooner, compared to a situation, where a startup is developed in order to achieve impact in the future. As one informant stated, this kind of impact-oriented buyout funds have most likely not been founded so far. Another informant, however, suggested that there have been some efforts to build this kind of impact structures in international markets, and the informant believes it will be an emerging field in the near future.

In addition to innovations that could lead to disruption in the market, or otherwise result in considerable impact in the future, entrepreneurs can have a significant role in providing new methods for impact modelling and measurement. Upright Project is a good example of such companies. However, even if this type of innovative firms can help in defining and measuring impact, it was questioned whether they could act as providers of impact labels or other products for indicating impact performance, since there seems to be a need for transparent, nonprofit actors on this field. This aspect is discussed more in the next section.

4.3.5 Enhancing ecosystems and collaboration

When asked, whether there is a shortage of structures or ecosystems in the Finnish markets, that would enable more efficient development of impact investing, answers were somewhat divided. Several informants stated that the ecosystem in Finland is sufficient: there are PE firms, investors, public sector organizations, associations, etc. which allow both discussion and building of new instruments. On the other hand, there were opinions suggesting that these structures and ecosystems are not necessarily utilized optimally to support the development of impact investing.

FVCA was mentioned virtually by all informants as an actor that has significantly influenced the discussion and has potential to continue doing it also in the future. This seems logical, since all the informants are members of the association. FVCA has conducted research on impact investing, organized events around the topic and provided support for its members. Overall, it can be considered, that the association has had an important role in increasing awareness of impact investing. As presented earlier, informants are still looking for practical guidelines about how to standardize impact, and FVCA was named as one possible actor, which could help in the process:

> *FVCA naturally can advance it by giving recommendations and guidelines about what this actually means, what is impact investing and what is not. Creating some kind of criteria. (3)*

> *They (FVCA) could increase the awareness and encourage to think about the measurability and possibly, like in ESG, create some kind of standards. (5)*

It was pointed out, that FVCA currently does not have a high number of LPs as members. Although, LPs would arguably be the ones benefiting the most from the impact guidelines. It would be crucial to ensure that all the actors in the market are on the same level of awareness, when it comes to impact investing:

> *Certainly, if there was a common taxonomy, which somehow outlined the frame and created a common basis for discussion between different LPs. It would be apt to make it (investing in impact funds) easier. It is probably not an easy entity to build. But it would help in developing a common market practices and taxonomy about how these things should be comprehended and perceived and so on. (7)*

There is a need for increased discussion also in the global scale. There seems to be demand for organizations which clarified the discussion around impact investing and provided practical guidelines. Optimally, they could also help in standardizing and measuring the impact. Some informants adduced their suspicion towards impact labels offered by private companies. Arguably, this discussion and standardization should be led by neutral, trustworthy actors, which are not making profit from these labels. PRI, which is supported by the United Nations, has been such an actor in responsible investing:

> *PRI was, when it was founded maybe in 2005–2007, under UN. And they only took admission fees for covering the costs and nothing else. It should be the model in all these, that there was an actor which bothers to think it through and develop some kind of operating models, which are credible from everyone's point of view. (5)*

GIIN is arguably the best-known global organization in the field of impact investing. It is a nonprofit organization, which attempts to increase the scale and effectiveness of impact investing globally (GIIN, 2020b). During the interviews, GIIN was mentioned several times when referring to definition of impact investing, since GIIN's definition seems to be somewhat of an industry standard. However, otherwise it seems that so far GPs and LPs have not found very practical help from the organization. Since GIIN represents the whole impact investing industry, their guidelines might not always be applicable or practical for actors operating in private equity specifically.

4.4 Summary of findings

In previous sections, the most important findings of the study were presented, divided in three sections: 1. current role of impact investing in the Finnish PE, 2. Restrictions for development and growth, 3. Enhancing the development. Table 3 summarizes the key findings.

Table 3: Summary of findings

Current role of impact investing in Finnish PE	• Increasing interest and awareness • There are still differences in how impact investing is defined and comprehended • No pure impact funds in the Finnish PE so far • GPs and LPs are trying to find ways to incorporate impact aspects into their business • Most are not actively seeking pure impact investing opportunities • Pursuing impact is mostly motivated by personal views and requirements from clients and the public
Restrictions for development and growth	• Vague definition has led to impact washing issues • Difficulties in measuring impact • Lack of standardized impact measuring tools • Uncertainty about effects on return, especially on LP side • LP requirements: impact is not a sufficient investment strategy • Long cycles, small sizes and illiquidity of private equity funds in general do not support impact investing
Enhancing the development	• PE firms have a key role in developing the market, by guiding discussion and pioneering • LPs can move large money flows, as their criteria are met • Role of family offices and foundations might become significant • Public sector can interfere by regulation and channeling money • Disruptive startups and companies specialized in impact measurement will develop the markets • FVCA can support the discussion. • There is a need for neutral, global actors in providing impact guidelines

Interest towards impact investing has not abated. Awareness amongst investors has increased during the recent years, but there are still some misunderstandings around the concept of impact investing. While impact investing is seen as one way to adapt to vast environmental and social challenges, critical attitude must be retained, to be able to evaluate long-term investment decisions. Regardless of the increasing interest, impact investing has not been implemented in the Finnish private equity field. Investors are increasingly trying to attach impact frameworks into their business, but in most cases these activities do not count as pure impact investing. Regarding additional impact, most investors are driven by personal motives for making the world a better place. Additionally, external pressure and requirements from clients are accelerating the interest in impact investing.

Despite of significant increase in awareness, defining impact investing is still a challenge, which has led to impact washing issues. Also, the challenge of measuring impact is still very evident. Even though there are new firms and models offering help to the challenging task, standardizing impact and comparing different products to each other remains difficult. While many actors in the field believe, that especially in the future impact and return support each other, uncertainties remain about whether investors have to give up some of their financial profits to achieve impact. Many LPs, especially institutional investors, have strict requirements for their investments and so far impact investors have not been able to fulfill them. Therefore, the quality of impact funds has hindered the growth of impact investing from LP side. Additionally, several features of private equity investing have not appeared very supportive for impact investing.

GPs and LPs are naturally crucial for the development of impact investing in private equity. While GPs, in general, have to respond to LP requirements, they will have an important role as pioneers. In the global market, private equity funds that seem to be able to combine impact investing with LP requirements, are emerging. Institutional investors are closely following the development of the field and are able to allocate large sums of money into impact destinations, when they are of sufficient quality. Meanwhile, family offices and foundations can support the field by embracing impact investing as one method of fulfilling their operational purpose. In the long term, the role of public sector lies in shaping regulation, but there might also be mechanisms by which public organizations can directly channel money to impact destinations. On the entrepreneurial side, startups and providers of impact measurement tools are crucial, while FVCA and global associations have an important role in continuing the discussion between different actors.

5 DISCUSSION

Impact investing has been a major trend in the financial world in recent years. Based on the interviews, discussion around the topic has continued to increase also in the Finnish private equity field. However, it seems that the market situation has not been developing at the same pace with the increasing awareness. The main challenges distinguished by this study are virtually the same, which were presented by FVCA, Sitra and Deloitte in 2017:

- Relationship between impact and profitability
- Impact measurement
- Alignment of impact with LP requirements
- Lack of encouraging examples and track record from GP side

It seems that as impact investing has been receiving so much attention early from the beginning, the hype and discussion about the opportunities have been ahead of the reality in the current market. This has most likely played a part in the development of impact washing activities as well. However, realizing the current shortcomings of impact investing market, in comparison with the opportunities, is necessary for the future development. After the first wave of enthusiasm around impact investing has stabilized, it seems there might be a need to reconsider how impact could or should be applied in the private equity market.

Growth of impact investing as an emerging part of sustainable finance is closely bound to the overall development of public awareness on issues, that current financial system is causing or is not able to fix. During the interviews, there was some discussion about the role of the shift in general world views, which might positively affect impact investing market development. Several informants pointed out, that media and education have a significant role in increasing public awareness concerning sustainability and they greatly affect the direction investing world takes in years to come. It seems, that personal motivation for doing good is no longer hindered by business practices, but can actually be used for creating new, long lasting value by venturing and investing.

5.1 Suitability of impact investing for PE

In section 4.2, several challenges preventing the increase of impact investing in private equity were presented. Long time spans and small fund sizes, combined with the traditional GP/LP structures, have been clear barriers for founding impact funds in Finland. Based on these challenges, it could be asked, whether private equity is a functional way for practicing impact investing in the first place.

On the other hand, as discussed in section 2.3.1, private equity is an asset class that provides investors with an ability to closely participate in developing portfolio companies and helping them to reach their potential. As Brest and Born (2013) present, impact investing often has best conditions for succeeding in markets subjective to frictions, such as imperfect information. Arguably, it is possible to utilize such frictions by private equity investing, since the managers have expertise and ability to distinguish opportunities, that would seem unattractive or too risky for the larger audience.

In private equity market, however, the managers have so far mostly concentrated on recognizing business opportunities based on their financial profitability. As was pointed out during the interviews, PE firms often do not have the competence to assess investments' impact potential. Regardless, profitability and financial return are also a crucial part of impact investing. As several informants presented, investments' impact is often unleashed by increasing scale of business, which requires growth of the portfolio companies, which in turn requires financial profits. Still, for investors to be able to recognize the most potential investments in terms of both return and impact, more expertise on impact modelling and measurement is needed for the use of PE firms. Development of impact modelling would help investors to assess the overall value of their investments.

There are no straightforward solutions for tackling the current challenges of impact investing. As was emphasized by informants, success of implementing impact as a part of private equity investing depends on several actors and collaboration between them. The crucial role of public sector was referred by several informants and also based on literature, public organizations could help in mitigation of the most obvious bottlenecks. International Finance Corporation (2011) discusses the methods public sector could take in order to facilitate private equity investing in climate change mitigation, and arguably many of those are relevant for the wider context of impact investing. These methods public sector organizations can utilize are 1. validating new funds 2. providing capital for funds to help them survive through fundraising stage and 3. providing capital for new funds to leverage returns or decrease the risk of private investors. While the role of public sector is often a topic of disagreements, it seems likely that it could lower the PE specific barriers of impact investing.

Based on previous literature, the most important motives for impact investors have been personal values, and findings of this study support this conviction. Additionally, external factors such as demand from clients as well as complying with regulation and agreements have encouraged investors to take sustainability aspects, and recently impact, better into account. Based on the findings of this study, in addition to ESG factors and risk management, positive impact is widely considered a future norm in the private equity field. Firms who want to stay in the business in the future, have to comply with these requirements and those who can adopt impact strategies most efficiently will have an advantage in the market. This development, however, will require both increasing pressure from the audience and governments, as well as an emergence of innovative solutions and companies.

5.2 Future of impact investing in PE

In section 2.4 it was discussed, how MLP theory could be applied in the context of impact investing. Based on the findings of this study, it seems that this approach is somewhat suitable for understanding possible future development routes. As was pointed out several times during the interviews, responsible investing and ESG investing are already somewhat integrated into the private equity field in Finland. All the informants' companies, as well as a significant number of other actors, are members of FVCA, which requires its members to incorporate responsible investment policies into their business decisions (FVCA, 2019d).

Considering MLP, due to the strong market emergence and presence in recent years, it can be argued that responsible investing as a wider concept already exist on the regime level, where it continues to evolve by current actors and policies. Impact investing, on the other hand, is still finding its ways to be implemented in the market. Figure 7 is built on the foundation of figure 5, which was presented in section 2.4.2. It illustrates the innovations on the niche level, as well as factors on the landscape level, recognized by literature and methodology of this study, which play a part in the development of impact investing field, especially in the Finnish private equity. Additionally, regime level consists of multi actor network, which was identified based on literature and interviews.

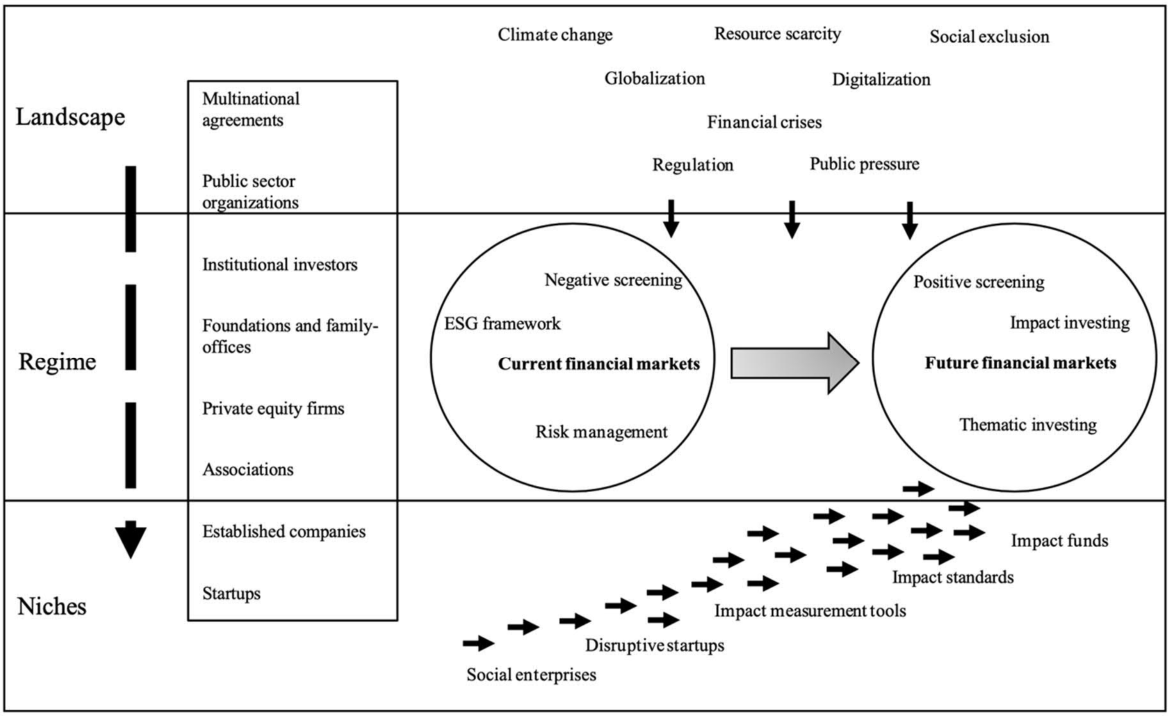

Figure 7: MLP approach on integration of impact investing

5.2.1 Top-down and bottom-up approach

Global environmental and social issues are the foundation of discussion about the resilience of current financial system. Due to personal values of investors and the public, answering to these issues will become more and more crucial in the future. As was pointed out by informants, no asset manager or PE firm can today ignore sustainability issues in order to maintain the credibility in the eyes of investors. Therefore, the market is becoming more supportive for responsible investing per se. However, as was also pointed out during the interviews, the effect might not be fast or strong enough in terms of climate change mitigation, for instance. Public sector, especially by regulation, is needed for ensuring pressure and incentives to abandon adverse investment opportunities. Volunteer agreements and standards can also be utilized in order to bringing the landscape level pressure into practice.

Top-down pressure from the landscape level affects the actors on the regime level, but also initiates movement on the niche level. While the role of external pressure and legislation has been a major driver in the emergence of responsible investing, the new investment opportunities and mechanisms often raise from the niche level. Concerning impact investing, social enterprises and disruptive startups might be even more crucial. As was implied by several informants, impact investing in private equity will most likely be implemented in venture capital first. While most of the companies will fail to attract investors' attention, some startups survive and together with other innovative companies cause constant stimulation on the regime level. When the motion is strong enough, and a suitable window of opportunity appears, these companies might succeed and cause a disruption in the market.

Innovative companies together with PE firms, that are increasingly embracing impact aspects in their investment policies, are in a key role in rooting impact investing into the regime level. As some informants stated, there are signs of emerging impact funds, that have successfully combined profitability and impact aspects, and could therefore lead the breaking of impact investing into mainstream market also in Finnish private equity field.

As discussed in section 4.3, there are several types of organizations, which can support the development of impact investing marketplace. This support will be especially important for niche innovations. Again, public sector has an important role in enabling research and development practices. As several informants presented, public sector organizations could also directly guide money to funds and establish first-loss structures. Foundations and family offices' role is also highlighted in allocating money to impact funds with increased risk at the early stages.

5.2.2 Integration of impact investing

Regardless of the challenges, it seems that role of impact investing will most likely increase in the coming years and decades. It seems probable, that in the future impact is, to some degree, part of most investing processes also in the private equity field. There might not be a market, which is divided into regular investing, responsible investing and impact investing, but there is a spectrum of investment opportunities with different risk-return-impact ratios. However, this does not decrease the importance of impact measurement and communication. On the contrary, in the market where impact has become an inseparable part of all private equity investing, it is even more crucial to be able to compare different investments to each other.

This development is driven by changes in the operating environment: tightening regulation and stricter demand from the public will seemingly require new kind of approaches from PE firms and investors to include sustainability into their business. Also, new kind of innovations in the startup scene and impact measurement will help in the development of the field. Over time, the practices that bring the most value in terms of financial return and societal impact, will integrate as parts of regime level and thus the financial market.

5.3 Additional value of impact investing

While many of the issues identified during the interviews are very typical for private equity investing, it seems that the most pressing challenges are fundamental for impact investing scene as a whole. One common issue has traditionally been the lack of unanimous definition for impact investing and interchangeable use of alternative terms. As Höchstädter and Scheck (2014) argue, it is likely that there are different schools of thought in the impact investing market, depending on the sector and geographical location of actors. The importance of shared understanding about what impact investing is, has also been recognized in the Finnish private equity scene (FVCA, Sitra and Deloitte, 2017). Based on the findings of this study, there has been a significant increase in awareness of defining impact investing, amongst Finnish PE firms and LPs. While the state of knowledge is still most likely not even between actors, it seems that the overall understanding about the characteristics of impact investing and how it differs from ESG investing, for instance, is relatively strong.

Even though the common understanding of the definition of impact investing is converging, the field is still complex, since there is an unlimited number of methods for defining, calculating, measuring and communicating impact. There is still need for more discussion and cooperation between different actors in the market, for coming up with mutual guidelines for defining impact. There is also a common understanding, that impact washing is a serious threat for the development of the industry. On the other hand, it can also be difficult to identify real impact investing from cases where the term has been used only for marketing purposes, without real effort and commitment to pursue positive impact.

This leads to an interesting discussion about the role of impact investing as a mechanism for financing sustainable development. Arguably, the additional value of impact investing is the achieved positive social or environmental impact, not the amount of money allocated to impact funds or a number of these funds per se. Therefore, increasing impact investing should not be simply taken as a necessity without critical scrutiny. In the end, it might be that largest positive impact is achieved by regular funds, which are not specifically branding themselves as impact funds. Regardless, as Brest and Born (2013) remind, considering intentionality in pursuing impact is important especially due to two matters. First, intentionality requires setting targets and reflecting achieved results with them. This allows recognizing best opportunities and practices, which enables better investments in the future. Secondly, people are more likely to achieve results they intentionally seek.

While impact investing as a concept is getting more and more familiar, difficulties in defining and measuring impact are as evident as ever. While the concerns regarding measurability and communication of impact may hinder the establishment of pure impact funds in Finland, a cautious and even doubting attitude towards impact may help in preventing impact washing and enable impact strategies to become a natural part of all investing in the long term.

6 CONCLUDING REMARKS

This study examined impact investing in the Finnish private equity field. The approach of the study was in the early stages very practical. As presented in the introduction, the study aims at producing knowledge, that could be utilized by PE firms and investors, in addition to serving academic purposes. Therefore, the initial goal of the study was to distinguish factors that are currently preventing PE firms from founding impact funds and investors, especially institutional ones, from investing in them. During the research process it was discovered, that even though awareness of impact investing as well as interest towards it have been increasing significantly in recent years, the market is still in early development phase and no pure impact funds have been raised. Therefore, more emphasis was put also on studying motives and rationale for impact investing, as well as its suitability for private equity in the first place.

It is indisputable, that to better address environmental and social challenges, there is a need for new kind of finance mechanisms, like impact investing. Also, there is a very short time frame for making rather radical adjustments in the financial system. While money is still channeled into unsustainable destinations, financial markets themselves will most likely be victims of uncontrolled climate change and other environmental hazards. Saha and Winey (2020) remind, that unless climate risk is not accounted for in global financial markets, the result may be a new financial crisis. In the big picture, failure in addressing sustainability issues negatively affects whole societies and even threatens the existence of humankind.

The motivation for ensuring a more sustainable approach in the financial markets exists. As was pointed out several times during the interviews, practically everyone wants to make impactful investments, and shift the world towards more sustainable direction by their own actions. However, the task is obviously not simple. Still, instead of creating markets that keep on misallocating money into unsustainable investments while guiding a small amount into impact funds thus cleaning investors' conscience, there is a need for more efficient and long-lasting transition.

6.1 Practical implications

While the practical challenges of impact investing in private equity have remained relatively unchanged, and no significant progress in Finland has occurred in terms of market size, this study offers an important update to the field. Several points of interest were distinguished, which were repeatedly addressed throughout the interviews conducted with private equity professionals. It seems, that impact washing schemes are considered by industry professionals as one of the main issues in terms of legitimacy and therefore development of impact investing. This challenge rises from difficulties in defining and measuring impact. Also, to achieve real impact by investing, return and impact should not necessarily be separated from each other. Currently, there might not be suitable tools for evaluating the overall impact of investments in terms of financial return and positive environmental and social impact. Therefore, it is uncertain whether impact investing, as it is defined today by GIIN, for instance, could or should become mainstream in private equity investing in the form of pure impact funds.

Instead, it seems likely that considering impact will, to some degree, integrate into all private equity investing and the importance of pursuing, measuring and communicating impact will grow in the future. The work done so far by pioneers of impact investing will be of significant value in helping to recognize practices that can be utilized in impact measurement and communication. The crucial aspect is transparency and comparability between different types of investments, were they called impact investing or not, to prevent impact washing and ensure that money is allocated based on real information.

6.2 Theoretical implications

This study discussed the emergence of impact investing with the help of theoretical framework of multi-level perspective. While MLP is only one possible framework for investigating societal change, it appears to suit the context of impact investing, and sustainable finance in general, relatively well. ESG framework, for instance, has largely been adopted due to pressure and demand from the public, as well as investors' commitment to global agreements and legislation. Adoption of ESG framework has, on the other hand, been possible because of growing supply of ESG indexes and ratings. As Finnish private equity professionals seem to predict that impact investing has a somewhat similar evolution from niche to mainstream, MLP seems to offer useful perspectives on the development and it could be utilized in research discussing the development of sustainable finance and impact investing also in the future.

As was mentioned before, regardless of the increased research on impact investing, there seems to be a shortage of literature discussing the topic in the context of specific asset classes. This study aimed at clarifying the challenges of impact investing in private equity specifically. Even though many of the challenges concern impact investing scene in general, there are naturally differences between different asset classes. As the field presumably continues to evolve, it would be a desirable progression, if more asset class specific research was produced.

6.3 Further research

While this study concentrated on distinguishing the challenges of impact investing and means to enhance the development, not significant focus was pointed on how PE firms could pursue impact in practice. While this would have been a very relevant topic concerning the development, early market phase and lack of pure impact funds in Finland would not have allowed thorough analysis. As briefly discussed in the literature review, PE firms can seek impact by two channels: via screening the market to distinguish potential companies and via active management of the portfolio companies. It would be interesting to study the role of these channels in relation to achieved impact.

It would be beneficial for the legitimacy of impact investing to conduct more quantitative research on the field. However, since impact investing is still a niche market, lack of suitable data may prove to be a challenge. Kirppu (2019) has studied what kind of impact modelling methods European private equity impact investors utilize, and how do impact targets possibly influence financial return. Since it seems that most actors in the market believe, that at least in the long term, impact and financial return will correlate positively, it would be interesting to test it statistically. So far, shortcomings in methods for distinguishing real impact of investments has hindered the opportunity for this kind of analysis, but it might become more relevant in the near future.

This study concentrated on understanding the challenges of impact investing from the market-oriented investors' point of view, which is especially significant to notify regarding LPs and their requirements. As was discussed, by reconsidering the separation of financial and operational functions, foundations and family offices could play a significant part in enhancing the generation of pure impact funds, as initial investors. So far, a comprehensive investigation on motives and interest in impact investing amongst Finnish foundations and family offices has not been conducted, and therefore it could be a relevant topic for future research.

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APPENDICES

Appendix 1: Interview guide

Yleiset kysymykset

1. Kertoisitteko yleisesti organisaationne toimintaperiaatteesta ja sijoituksista.
2. Mikä on oma roolinne organisaation toiminnassa?

Johdantokysymykset

3. Miten määrittelisitte vaikuttavuussijoittamisen?
4. Miten yleinen kiinnostus vaikuttavuussijoittamista kohtaan on mielestänne kehittynyt viimeisten kuukausien ja vuosien aikana?
5. Onko Suomen vaikuttavuussijoitusalan nykytilassa mielestänne eroja muihin maihin/markkinoihin verrattuna?

Nykyinen vaikuttavuus

6. Mitkä ovat teille tärkeimmät kriteerit sijoituskohteita valittaessa?
7. Oletteko tehneet sijoituksia, joilla on rahallisen tuottotavoitteen lisäksi myös muita tavoitteita?
8. Etsittekö aktiivisesti mahdollisuuksia tällaisten sijoitusten tekemiselle?
9. Oletteko kiinnostuneet sijoitustoimintanne vaikuttavuusnäkökulman lisäämisestä?
10. Mitkä ovat teille tärkeimmät motiivit vaikuttavuuden lisäämiselle?

Haasteet ja ratkaisukeinot

11. Mitkä ovat organisaationne tämänhetkiset edellytykset vaikuttavuussijoittamisen toteuttamiselle?
12. Mitkä tekijät erityisesti ovat vaikeuttaneet vaikuttavuussijoitusten toteuttamista
13. Mitkä tekijät ovat mahdollisesti vähentäneet mielenkiintoanne vaikuttavuussijoittamista kohtaan?
14. Mitkä tekijät helpottaisivat vaikuttavuussijoitusten tekemistä?
15. Mitkä tekijät lisäisivät mielenkiintoanne vaikuttavuussijoittamista kohtaan?
16. Koetteko, että vaikuttavuussijoituskentässä on tällä hetkellä kohtaanto-ongelma kysynnän ja tarjonnan välillä?
17. Mitkä toimijat mielestänne vaikuttavat vaikuttavuussijoittamisen kehitykseen Suomessa?
18. Millaisin keinoin eri toimijat pystyisivät edistämään vaikuttavuussijoitustoiminnan kehitystä?
19. Millaisena näette vaikuttavuussijoittamisen tulevaisuuden pääomasijoittamisessa?
20. Pitäisikö vaikuttavuussijoittamista mielestänne lisätä/kehittää? Miksi?

Haluaisitteko vielä lisätä jotakin?

Appendix 2: Interview guide (English translation)

General questions
1. Would you describe the operations and investments of your organizations on a general level?
2. What is your own role in the organization?

Introductory questions
3. How would you define impact investing?
4. How do you think the general interest towards impact investing has developed during the recent months and years?
5. Do you think there are differences in the current state of impact investing in Finland, compared to other regions/markets?

Current impact
6. Which are the most important criteria for you, when choosing investment opportunities?
7. Have you made investments which have, in addition to financial return, had other targets?
8. Are you actively seeking opportunities for making this kind of investments?
9. Are you interested in increasing the impact aspect of your investments?
10. Which are the most important motives for you for increasing the impact?

Challenges and solutions
11. What are the current prerequisites of your organization for practicing impact investing?
12. Which factors especially have hindered practicing impact investing?
13. Which factors have possibly decreased your interest towards impact investing?
14. Which factors would make practicing impact investing easier?
15. Which factors would increase your interest towards impact investing?
16. Do you think, there is currently a gap between demand and supply in the impact investing field?
17. Which actors, in your opinion, influence the development of impact investing field in Finland?
18. By what kind of methods could different actors advance the development of impact investing?
19. How do see the future of impact investing in private equity?
20. Do you think impact investing should be increased or developed? Why?

Is there anything else you would like to add?